
CERTIFIED PUBLIC ACCOUNTANT

LEVEL 2 EXAMINATIONS

L2.5: AUDITING

THURSDAY: 4 DECEMBER 2014

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- 2. This examination has seven questions and only five questions are to be attempted.**
- 3. Marks allocated to each question are shown at the end of the question.**
- 4. Show all your workings**

QUESTION ONE

- (a) Briefly explain the meaning of the term “audit” **(4 Marks)**
 - (b) Distinguish between a “statutory audit” and a “private audit.” **(6 Marks)**
 - (c) List and briefly explain at least three advantages that would accrue to a business entity as a result of having its books audited. **(5 Marks)**
 - (d) Identify the principal responsibilities of the directors of the company with regard to the company’s financial statements. **(5 Marks)**
- (Total: 20 marks)**

QUESTION TWO

- (a) Write brief notes on the following:
 - (i) Tests of control. **(2 Marks)**
 - (ii) Control risk. **(3 Marks)**
 - (b) Identify five examples of each of the following types of controls:
 - (i) Authorization controls. **(5 Marks)**
 - (ii) Recording controls. **(5 Marks)**
 - (iii) Custody controls. **(5 Marks)**
- (Total: 20 Marks)**

QUESTION THREE

- (a) The preparation of financial statements is the responsibility of a company’s directors.
List and explain at least seven assertions made by the directors of a company pertaining to the accounts payable appearing in the balance sheet. **(7 Marks)**
 - (b) Audit evidence refers to any information used by the auditor to enable him arrive at a reasonable conclusion necessary for his audit opinion.
 - (i) List five factors that influence the auditor’s judgement on the sufficiency of audit evidence. **(5 Marks)**
 - (ii) Identify at least five presumptions used by an auditor in assessing the reliability of audit evidence. **(5 Marks)**
 - (iii) Highlight at least three auditor’s limitations in the collection of audit evidence. **(3 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

- a) In order to conduct an audit effectively and efficiently, an auditor should properly plan for the assignment:
 - i) Explain at least four matters that an auditor should take into account at the planning stage of an audit exercise. **(8 Marks)**

- ii) Outline at least four ways in which an auditor acquires knowledge about the client's business and industry. **(4 Marks)**
 - b) The final stage of an audit includes an overall review of the financial statements. Explain at least four procedures that the auditor should adopt for the final review. **(4 Marks)**
 - c) Highlight at least four qualities required of the final accounts prepared by a client company. **(4 Marks)**
- (Total: 20 Marks)**

QUESTION FIVE

- (a) Outline five tasks an external auditor is required to undertake prior to accepting the appointment as an auditor of a new client. **(5 Marks)**
 - (b) State three situations where an auditor may commit a criminal offence under the Companies Act. **(3 Marks)**
 - (c) Explain how the auditor is remunerated under the Companies Act. **(8 Marks)**
 - (d) Explain two reasons why an auditor of a company may resign. **(4 Marks)**
- (Total: 20 Marks)**

QUESTION SIX

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. In most cases therefore, auditors are not expected to carry out a 100% check on clients' records and transactions. Rather, they adopt a sampling approach in the conduct of their audit work.

Required:

- (a) Briefly explain the following terms:
 - (i) Sampling risk. **(3 Marks)**
 - (ii) Tolerable error. **(3 Marks)**
 - (b) Identify four situations in which a sampling approach would not be appropriate. **(4 Marks)**
 - (c) List and briefly explain five circumstances in which audit sampling would be considered appropriate. **(10 Marks)**
- (Total: 20 Marks)**

QUESTION SEVEN

In the context of ISA 240 (The Auditor's Responsibility to Consider Fraud and Error in, an Audit of Financial Statements):

- (a) Define:
 - (i) Fraud **(3 Marks)**
 - (ii) Error **(3 Marks)**
 - (b) Outline the respective responsibilities of an entity's management and the external auditor with respect to the prevention and detection of fraud and error. **(8 Marks)**
 - (c) Outline three procedures an external auditor should follow if he suspects that fraud or error have been perpetrated. **(6 Marks)**
- (Total: 20 Marks)**

End of question paper

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