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Past Paper with Answers

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PART A

TOPICALLY ARRANGED

PAST EXAMINATION QUESTIONS

TOPIC 1

NATURE AND PURPOSE OF AN AUDIT

QUESTION 1

August 2025 Question One A

Your firm has been engaged in auditing micro small and medium entities (MSMEs) for the last five years. In a recent development, your firm has been appointed to conduct an audit of Maua Ltd., a large public listed company. This is the first assignment of such magnitude. You are required to undertake an interim audit and a final audit.

Required:

Explain FOUR audit procedures you could undertake during the following audits of Maua Ltd.:

(i) Interim audit. (4 marks)

(ii) Final audit. (4 marks)

QUESTION 2

April 2025 Question One A

Highlight SIX inherent limitations of an audit of historical financial statements. (6 marks)

QUESTION 3

December 2024 Question One B

Discuss FOUR differences between "internal audits" and "external audits". (8 marks)

QUESTION 4

August 2024 Question One A

Highlight FIVE inherent limitations of an audit. (5 marks)

QUESTION 5

April 2024 Question One A

Private companies are not required by law to have their financial statements examined by an auditor. However, all public entities are required by law to have their financial statements audited.

Required:

Explain **SIX** reasons why an audit is considered necessary for limited liability companies and other public entities. (6 marks)

QUESTION 6

April 2023 Question One A

Highlight **THREE** benefits that may be derived from independently audited financial statements. (3 marks)

QUESTION 7

August 2022 Question Two C

Your firm has been appointed as incoming auditors of Taratibu Motors Ltd. Part of the agreement is a proposal of undertaking of continuous audits on the company's financial statements.

Required:

Explain four disadvantages of conducting the proposed continuous audits. (4 marks)

QUESTION 8

April 2022 Question One A

Your firm has been engaged in auditing small entities for the last five years. In a recent development, your firm has been appointed to conduct an audit on a large entity; which is the first assignment of such magnitude. You are required to undertake an interim audit and a final audit of the large entity.

Required:

(i) Explain the objective of an external audit. (2 marks)

(ii) Highlight five audit procedures you could undertake during the interim audit of the large entity. (5 marks)

(iii) Describe five audit procedures you would undertake during the final audit of the large entity. (5 marks)

(iv) Present two drawbacks of conducting an interim audit. (2 marks)

QUESTION 9

December 2021 Question Three C

You are the auditor of Sharoh Ltd. which was incorporated in December 2018. The company's main business is in real estate. Over the last two years, the company has recorded increased profits as a result of the Property Market-boom in the country. Due to the increased number of transactions, you as the auditor feel that it is prudent to have an interim audit. The management are however hesitant about your proposal.

Required:

Explain three reasons to the management of Sharoh Ltd. why an interim audit is necessary and how it could be of benefit to the client. (6 marks)

PART B

SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 1

NATURE AND PURPOSE OF AN AUDIT

QUESTION 1

August 2025 Question One A

(i) Interim Audit Procedures

Interim audit is carried out **before the year-end**, focusing on **internal controls** and early testing.

1. Evaluation of Internal Controls:

- Review and document the design and effectiveness of internal control systems over key areas (e.g., revenue, purchases, payroll).
- Identify any weaknesses and assess control risk.

2. Substantive Testing of Transactions:

- Perform sample testing of transactions for the period (e.g., sales, purchases, bank transactions) to detect material misstatements.
- Helps reduce workload at final audit.

3. Review of Accounting Policies:

- Ensure that accounting policies used comply with applicable financial reporting frameworks (e.g., IFRS).
- Confirm consistency of application from prior periods.

4. Preliminary Analytical Procedures:

- Perform ratio and trend analysis to identify unusual variances or risks (e.g., gross profit margin fluctuations).
- Helps in risk assessment and audit planning.

(ii) Final Audit Procedures

Final audit is conducted **after the year-end**, focusing on **financial statement verification and reporting**.

1. Verification of Balances:

- Confirm year-end balances of major accounts such as receivables, payables, inventory, and cash.
- Obtain external confirmations (e.g., bank confirmations, debtor balances).

2. Review of Subsequent Events:

- Examine events occurring after the balance sheet date to determine any necessary adjustments or disclosures.

3. Going Concern Assessment:

- Evaluate whether the company can continue as a going concern by reviewing budgets, forecasts, and board minutes.

4. Final Analytical Procedures:

- Perform a final review of financial statements using analytical procedures to ensure consistency and reasonableness.

QUESTION 2

April 2025 Question One A

Inherent limitations of an audit of historical financial statements

1. **The Nature of Financial Reporting:** Financial statements require significant judgment and estimation by management (e.g., estimating useful lives of assets, calculating provisions for bad debts or warranties, valuing complex financial instruments). These estimates have inherent uncertainty, and an audit cannot provide absolute certainty about their accuracy, only assess their reasonableness.
2. **The Nature of Audit Procedures:** Auditors typically use sampling techniques to test transactions and balances because examining 100% of the data is usually impractical and too costly. This introduces sampling risk – the risk that the sample selected is not representative of the entire population, potentially leading the auditor to an incorrect conclusion. Furthermore, audit procedures may not be effective in detecting certain types of misstatements, especially those involving sophisticated fraud or collusion.
3. **Limitations Related to Fraud:** While audits are designed to provide reasonable assurance of detecting *material* misstatements, whether due to error or fraud, they are not foolproof, particularly concerning fraud. Management override of controls, collusion among employees or with third parties, or carefully concealed forgery can make fraud extremely difficult to detect through standard audit procedures.
4. **The Nature of Audit Evidence:** Audit evidence gathered is generally persuasive rather than conclusive. For example, confirmations from third parties provide strong evidence but are not infallible (e.g., the third party might make an error or collude). Management representations are a necessary part of evidence but rely on management's honesty and knowledge. Auditors must use professional judgment to evaluate the sufficiency and appropriateness of evidence obtained.
5. **Timeliness and Cost Constraints:** Audits must be completed within a reasonable period and at a reasonable cost. These practical constraints inevitably limit the extent of audit procedures that can be performed. An exhaustive investigation might uncover more issues but would be prohibitively expensive and time-consuming, negating the usefulness of timely financial reporting.
6. **Potential for Future Events:** Financial statements reflect past events and transactions. An audit opinion relates to the fairness of presentation *at a specific point in time* or *over a specific period*. Subsequent events occurring after the audit

report date could significantly affect the entity's financial position or the validity of assumptions used in preparing the statements (e.g., a major customer going bankrupt after year-end affecting receivable collectibility), but these fall outside the scope of the audit of the *historical* statements themselves (though auditors do have responsibilities regarding subsequent events up to the report date).

QUESTION 3

December 2024 Question One B

Differences between Internal and External Audits

Aspect	Internal Auditing	External Auditing
Objectives	The main objective is to advice management on whether organization has sound internal control systems to protect it against loss.	The objective is to provide an opinion as to whether or not the financial statements show a true and fair view of the company's state affairs.
Purpose and Focus	Evaluate and improve internal controls, risk management, and governance. Focus on operational efficiency and compliance.	Independent assessment of financial statements for accuracy and compliance with standards.
Legal basis	Internal auditing is not a legal requirement but corporate governance advises and recommends that a company should have an internal audit department.	It is a legal requirement for limited liability companies and public bodies to have their accounts audited.
Scope	It covers all areas of organization i.e. operational as well as financial.	Primarily focused on financial statement accuracy and fairness
Approach	It is increasingly risk based. The approach is to assess risks, evaluate systems of control and test operation of the systems and finally make recommendations for improvement.	Its increasingly risk based as it only tests underlying transactions that form having of financial statements.
Frequency	Conducted on a continuous or cyclical basis	Typically performed annually
Responsibility	The responsibility is to advise and make recommendations on internal controls and corporate governance	The Responsibility is to form an opinion on whether financial statements show a true and fair view.