

KASNEB REVISION KIT

**AUDITING AND
ASSURANCE
REVISION KIT**

www.masomomsingi.com

0728 776 317

2026

MASOMO MSINGI PUBLISHERS

CPA

INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

REVISION KIT

Updated With

APRIL 2026

Past Paper with Answers

| CONTENT | PAGE |
|---|-------------|
| PART A: PAST EXAMINATION QUESTIONS | |
| Topic 1: Nature and purpose of an audit | 13 |
| Topic 2: Assurance and non- assurance engagements | 17 |
| Topic 3: Legal and professional framework | 22 |
| Topic 4: Planning and Risk Assessment | 30 |
| Topic 5: Audit risk assessment | 34 |
| Topic 6: Audit planning | 39 |
| Topic 7: Audit documentation | 44 |
| Topic 8: Internal control systems (ICS)..... | 47 |
| Topic 9: Internal Audit Function | 56 |
| Topic 10: Overview of Forensic Accounting..... | 62 |
| Topic 11: Errors, Frauds and Irregularities..... | 64 |
| Topic 12: Audit evidence..... | 69 |
| Topic 13: Auditing in the public sector..... | 81 |
| Topic 14: Auditors Reports..... | 83 |
| Topic 15: Auditing in a computerised system..... | 94 |
| Topic 16: Contemporary and emerging issues in audit..... | 98 |
| PART B: SUGGESTED ANSWERS TO PAST EXAMINATION QUESTIONS | |
| Topic 1: Nature and purpose of an audit | 101 |
| Topic 2: Assurance and non- assurance engagements | 112 |
| Topic 3: Legal and professional framework | 124 |
| Topic 4: Planning and Risk Assessment | 146 |
| Topic 5: Audit risk assessment | 154 |
| Topic 6: Audit planning | 171 |
| Topic 7: Audit documentation | 184 |
| Topic 8: Internal control systems (ICS)..... | 194 |
| Topic 9: Internal Audit Function | 216 |
| Topic 10: Overview of Forensic Accounting..... | 231 |
| Topic 11: Errors, Frauds and Irregularities..... | 236 |
| Topic 12: Audit evidence..... | 252 |
| Topic 13: Auditing in the public sector..... | 282 |
| Topic 14: Auditors Reports..... | 290 |
| Topic 15: Auditing in a computerised system..... | 318 |
| Topic 16: Contemporary and emerging issues in audit..... | 327 |
| Mnemonics | 332 |

PART A

TOPICALLY ARRANGED

PAST EXAMINATION QUESTIONS

TOPIC 1**NATURE AND PURPOSE OF AN AUDIT****QUESTION 1****December 2025 Question One A**

Continuous auditing signifies an important shift in how audits are conducted. This approach aims to transform audits from periodic, manual reviews into fast, agile operations that can keep pace with modern demands.

Required:

- (i) Discuss THREE benefits that might arise from the conduct of continuous audits as opposed to traditional audits. (6 marks)
- (ii) Explain TWO challenges of continuous auditing. (4 marks)

QUESTION 2**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 3**April 2025 Question One A**

Highlight SIX inherent limitations of an audit of historical financial statements.

(6 marks)

QUESTION 4**December 2024 Question One B**

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

PART B

SUGGESTED

ANSWERS AND SOLUTIONS

TOPIC 1

NATURE AND PURPOSE OF AN AUDIT

QUESTION 1

December 2025 Question One A

(i) Three Benefits of Continuous Auditing

Compared to traditional audits—which often occur months after the actual transactions—continuous auditing offers the following advantages:

- 1. Real-Time Risk Identification and Mitigation** Traditional audits are retrospective, meaning errors or fraud might remain undetected for an entire fiscal year. Continuous auditing uses automated triggers to identify anomalies the moment they happen. This allows management to address issues immediately, significantly reducing the "window of opportunity" for fraud or systemic errors to escalate.
- 2. Increased Audit Coverage and Accuracy:** Traditional auditing relies heavily on statistical sampling because humans cannot manually review every transaction. Continuous auditing uses software to analyze 100% of the population data. This eliminates sampling risk and ensures that even low-value, high-frequency irregularities are captured.
- 3. Enhanced Operational Efficiency:** Because data is collected and analyzed automatically throughout the year, the "year-end crunch" is minimized. This levels out the workload for both auditors and the finance department. Additionally, the audit becomes a proactive tool for improving business processes rather than just a compliance exercise.

(ii) Two Challenges of Continuous Auditing

- 1. High Initial Cost and Technical Complexity** Setting up a continuous audit environment requires a heavy upfront investment in specialized software and infrastructure. It often requires integrating the audit tools with the company's existing ERP (Enterprise Resource Planning) systems. Smaller organizations may find the cost of acquisition and the need for highly skilled IT-audit professionals to be prohibitive.
- 2. Data Integrity and Security Concerns** For continuous auditing to work, the auditor must have persistent, often read-only access to live production data. This creates a potential security vulnerability. If the connection isn't properly secured, it could expose sensitive financial data to external threats. Furthermore, if the underlying data in the system is "garbage," the automated reports will also be flawed, leading to a high volume of "false positives" that require manual investigation.

QUESTION 2**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 3**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 4**December 2024 Question One B****Differences between Internal and External Audits**

| Aspect | Internal Auditing | External Auditing |
|--------------------------|---|--|
| Objectives | The main objective is to advise 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. |

QUESTION 5**August 2024 Question One A****Inherent limitations of an audit**

- Inherent Limitations of Evidence:** Audit evidence is rarely conclusive. It is often persuasive rather than absolute, meaning it can influence belief but not eliminate all doubt. This is due to the nature of financial reporting, which often involves estimates and judgments.

2. **Nature of Audit Procedures:** Auditors rely on a variety of procedures, such as testing, inspection, and inquiry. While these procedures are effective, they are not infallible and may not uncover all material misstatements.
3. **Timeliness of Financial Reporting:** Financial statements are prepared at a specific point in time. Events that occur after that date may not be reflected in the audit, even if they are material.
4. **Cost-Benefit Trade-off:** Auditors must balance the cost of conducting an audit with the benefits it provides. This means that they may not be able to test every transaction or account balance, especially if it is not cost-effective.
5. **Human Error:** Auditors are human and can make mistakes. This means that there is always a risk that an audit may not detect all material misstatements.

QUESTION 6

April 2024 Question One A

Reasons for Audits in Limited Liability Companies and Public Entities:

- **Compliance with Legal Requirements:** For public entities, audits are mandatory as per the securities laws and regulations. The capital markets Act requires all publicly traded companies to have their financial statements audited by an independent accounting firm. This requirement is essential to protect investors from potential fraudulent activities and to maintain confidence in the capital markets.
- **Enhancing Credibility:** An audit provides an independent assessment of an organization's financial statements, which can significantly enhance their credibility among stakeholders such as investors, creditors, customers, employees, and regulatory bodies. A clean audit report signifies that the financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and provide a true and fair view of the organization's financial position.
- **Identifying Errors or Fraud:** During an audit, the auditor examines the organization's financial transactions, internal controls, and accounting practices to identify any errors or discrepancies that may exist. These findings can help management address any issues promptly and prevent potential future problems. Moreover, audits can also help detect fraudulent activities that might go unnoticed otherwise.
- **Assessing Risk Management:** Audits enable assessing an organization's risk management processes by evaluating its internal controls system's effectiveness in managing risks related to financial reporting. This assessment can provide valuable insights for management to improve their risk management strategies and mitigate potential threats to their business operations.
- **Maintaining Regulatory Compliance:** In certain industries or sectors where regulatory compliance is mandatory, audits play a significant role in demonstrating adherence to specific regulations or standards set by regulatory bodies.