



ATD LEVEL III

PRINCIPLES OF AUDITING

THURSDAY: 21 August 2025. Afternoon Paper.

Time Allowed: 2 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. When planning an audit, the auditor's knowledge about the design of relevant internal controls should be used to _____.
A. assess the efficiency of internal controls over operations
B. identify the types of potential misstatements that could occur
C. report the assessed level of control risk in work papers
D. evaluate which controls are circumvented due to collusion (2 marks)
2. Which one of the following statements **CORRECTLY** defines Inherent risk?
A. The possibility of misstatement in account balances that could be material individually or when aggregated with misstatement
B. The possibility that the auditor's substantive tests will not detect misstatement that exists in account balances
C. The risk that a conclusion based on a sample will deviate from conclusion reached if the population was subjected to the same test
D. The susceptibility of an assertion in a financial statement to a misstatement that could be material, either individually or when aggregated with other misstatements (2 marks)
3. Which of the following comparisons would an auditor **MOST** likely make in evaluating an entity's costs and expenses?
A. The current year's accounts receivable with the prior year's accounts receivable
B. The current year's payroll expense with the prior year's payroll expense
C. The budgeted current year's sales with the prior year's sales
D. The budgeted current year's warranty expense with the current year's contingent liabilities (2 marks)
4. The auditor's primary reason for assessing control risk is that the assessment _____.
A. affects the level of detection risk that the auditor may accept
B. shows the auditor where inherent risk may be greatest
C. is relevant to the auditor's understanding of the control environment
D. provides assurance that the materiality level set by the auditor is appropriate (2 marks)
5. A professional accountant should be straightforward and honest in performing professional services. A professional service is any service requiring accountancy skills performed by a professional accountant and includes, **EXCEPT** _____.
A. taxation
B. financial management services
C. auditing
D. governing (2 marks)
6. The risk that an auditor will make a conclusion based on substantive tests that a material misstatement does not exist in an account balance when in fact, such misstatement does exist is referred to as _____.
A. sampling risk
B. detection risk
C. non-sampling risk
D. inherent risk (2 marks)

7. The objective of tests of details of classes of transactions performed as substantive tests is to _____.
 A. comply with International Financial Reporting Standards (IFRSs)
 B. attain assurance about the reliability of the information system relevant to financial reporting
 C. detect materials misstatement at the assertion level
 D. evaluate whether management's controls operated effectively (2 marks)
8. With reference to audit working papers, which one of the following statements is **CORRECT**?
 A. The permanent file is audit working papers containing all the data that are of continuing interest from year to year
 B. Permanent file includes client summary information such as a description of the client and client industry
 C. Permanent file includes evidence of the auditor's understanding of the accounting and internal control systems.
 D. Permanent file is a list the working papers which contains analyses of significant ratios and trends (2 marks)
9. The following are primary responsibilities of an external auditor as per the Companies Act, **EXCEPT** _____.
 A. to express an opinion
 B. to report to shareholders
 C. to detect errors and fraud
 D. to examine financial statements (2 marks)
10. The other name of teeming and lading is _____.
 A. misappropriation
 B. delayed accounting
 C. fraud that involves money
 D. misapplication of accounting funds (2 marks)
11. Which one of the following statements would **NOT** be considered as an analytical procedure?
 A. Estimating payroll expense by multiplying the number of employees by the average hourly wage rate and the total hours worked
 B. Projecting an error rate by comparing the results of a statistical sample with the actual population characteristics
 C. Computing accounts receivable turnover by dividing credit sales by the average net receivables
 D. Developing the expected current year sales based on the sales trend of the prior five years (2 marks)
12. Which one of the following statements is **NOT** a common type of organisational fraud?
 A. Manipulation, alteration or falsification of records or documents
 B. Misappropriation of goods
 C. Misappropriation of accounting policies
 D. Misusing goods and services (2 marks)
13. The following are sources of audit evidence, **EXCEPT** _____.
 A. accounting systems and underlying documents
 B. tangible assets
 C. management and employees
 D. financial statements (2 marks)
14. Which one of the following statements is an advantage of continuous audit?
 A. Errors and frauds are discovered earlier and corrective action taken
 B. It facilitates completion of final audit as part of the company's financial periods
 C. The audit will provide feedback to the management regarding the procedures not followed
 D. The type of audit is cheap to the client because of the long hours audit staff take (2 marks)
15. The following are elements of financial statements, **EXCEPT** _____.
 A. statement of profit or loss
 B. statement of financial position
 C. cash flow statement
 D. accounts statement (2 marks)
16. With reference to errors and fraud, which one of the following statements describes the term "error evaluation"?
 A. Technique used to assess the impact of errors found in the financial statements
 B. Techniques used to evaluate errors found in the books of accounts
 C. The techniques used to determine whether errors found are not likely to cause misstatements
 D. Assessment of errors and determining their effects in the books of accounts (2 marks)

17. With reference to auditing, the concept of limitation of scope refers to _____.
A. the auditor disagree with management on accounting policies applied in preparation of the financial statements
B. auditor does not have enough evidence to support and express an opinion on the financial statement
C. accounting policies applied by management are insufficient
D. the management are unable to maintain proper books of accounts and this may lead to inappropriate opinion (2 marks)
18. The term vouching in auditing refers to _____.
A. examining each entry made and if in any case there is an error, calling for corrective action
B. checking who has authorised transactions and when the transactions were entered in the system
C. substantiating entries in the books of accounts to see that the transaction have been properly authorised recorded and entered in the books of accounts
D. carrying out an internal check system with the intention of approving entries made to ensure that the right persons posted the entries (2 marks)
19. Which one of the following reports does **NOT** result in qualification of the auditor's opinion due to a scope limitation?
A. Reliance on the report of another auditor
B. Restrictions that the client imposed
C. Inadequacy of accounting records
D. Inability to obtain sufficient appropriate evidential matter (2 marks)
20. Consider the following documents:
(i) Audit notebook
(ii) Audit programme
(iii) Audit report
(iv) Audit files
- The **CORRECT** sequence in which the auditor prepares the documents is _____.
A. (i), (ii), (iii) and (iv)
B. (ii), (i), (iii) and (iv)
C. (ii), (i), (iv) and (iii)
D. (i), (ii), (iv) and (iii) (2 marks)
21. The following are reasons why auditors perform test of controls, **EXCEPT** _____.
A. Evaluate the design and operating effectiveness of internal controls
B. Reduce the need for substantive testing if controls are effective
C. Obtain audit evidence about the reliability of financial reporting
D. Assess compliance with established control procedures (2 marks)
22. As a result of management's refusal to permit the auditor to physically examine inventory, the auditor must depart from the unmodified opinion audit report because _____.
A. the scope of the audit has been restricted
B. the financial statements have not been audited in accordance with International Auditing Standards (IAS)
C. the scope of the audit has been restricted by circumstances beyond either the client's or auditor's control
D. the financial statements have not been prepared in accordance with IAS (2 marks)
23. The level of assurance provided by an audit in detecting a material misstatement is referred to as _____.
A. positive assurance
B. high assurance
C. reasonable assurance
D. negative assurance (2 marks)
24. Which one of the following factors is an inherent limitation of internal control?
A. Lack of segregation of duties
B. Inadequate documentation
C. Human error
D. Poor management oversight (2 marks)

25. Which one of the following statements is the primary purpose of the control activities component of internal control?
- A. Ensuring management's integrity
 - B. Confirming financial statement accuracy
 - C. Mitigating risks of material misstatement
 - D. Setting organisational objectives
- (2 marks)
26. Which one of the following statements is the primary purpose of the financial statement audit risk model?
- A. Identifying areas of potential fraud
 - B. Assessing the risk of material misstatement in financial statements
 - C. Evaluating internal control effectiveness
 - D. Confirming the accuracy of financial statements
- (2 marks)
27. Which audit assertion is concerned with whether all transactions and events have been recorded?
- A. Existence
 - B. Completeness
 - C. Valuation
 - D. Rights and obligations
- (2 marks)
28. The following are reasons why audits are needed, **EXCEPT** _____.
- A. detection of errors and frauds
 - B. stewardship accounting
 - C. proving true and fair view
 - D. separation of ownership and control of a business
- (2 marks)
29. Which one of the following statements is the **BEST** way to prevent misappropriation of assets?
- A. Adequate supervision of inventory
 - B. Disciplinary measures against employees
 - C. Proper remuneration of staff
 - D. Over valuation of assets
- (2 marks)
30. The following factors can expose an auditor to criminal liability, **EXCEPT** _____.
- A. breach of the duty of care in the course of audit
 - B. allowing his/her name to be used on financial statements he never audited
 - C. assisting the management to commit a fraud
 - D. continuing holding office knowing well that he/she is not qualified to hold office
- (2 marks)
31. The overall attitude, awareness and actions of management regarding internal controls is known as _____.
- A. internal controls
 - B. control activities
 - C. information system
 - D. control environment
- (2 marks)
32. A company should prepare a bank reconciliation _____.
- A. on a weekly basis
 - B. on a monthly basis
 - C. semi annually
 - D. annually
- (2 marks)
33. The process of financial audit begins with _____.
- A. internal control
 - B. planning
 - C. testing
 - D. reporting
- (2 marks)
34. The following are types of audit reports, **EXCEPT** _____.
- A. simple report
 - B. unmodified opinion report
 - C. qualified report
 - D. audit report with an emphasis of matter paragraph
- (2 marks)

35. Which one of the following is a requirement when vouching cash payments?
A. Examine payment in cashbook
B. Examine debtor's ledger
C. Examine cash sales
D. Examine credit sales (2 marks)
36. The **MOST** difficult type of misstatement to detect is fraud based on _____.
A. the over-recording of transactions
B. the non-recording of transactions
C. recorded transactions in subsidiaries
D. related-party receivables (2 marks)
37. What should the auditor do if a prospective new audit client does not allow him to contact its existing auditor?
A. The auditor should contact the existing auditor anyway because it is their duty
B. The auditor should refuse to take on the prospective new client
C. The existing auditor should contact the new auditor to tell them all about the client
D. The auditor should respect the prospective client's right to privacy (2 marks)
38. The type of relationship that exists between risks and materiality is referred to as _____.
A. positive
B. inverse
C. irrelevant
D. normal (2 marks)
39. Classification is an important assertion for expenses because _____.
A. there is often an incentive to overstate expenses
B. some expenses are subject to specific disclosure requirements
C. vouching is a useful audit technique for expenses
D. auditing assets gives no evidence about certain expenses (2 marks)
40. Which one of the following activities includes management's responsibility for the financial report?
A. Selecting internal controls tests
B. Selecting samples for audit testing
C. Selecting and applying appropriate accounting policies
D. Selecting experts to assist with testing asset valuations (2 marks)
41. Which one of the following statements is a reason why an auditor obtains knowledge about a new client's business and its industry?
A. Make constructive suggestions concerning improvements to the client's internal control
B. Develop an attitude of professional scepticism concerning management's financial statements assertions
C. Evaluate whether the aggregation of known misstatements causes the financial statements taken as whole to be materially misstated
D. Understand the events and transactions that may have an effect on the client's financial statements (2 marks)
42. While observing a client's annual physical inventory count, an auditor recorded test counts for several items and noticed that certain test counts were higher than the recorded quantities in the client's records. This situation could result to the client's failure to record _____.
A. purchase discounts
B. purchase returns
C. sales
D. sales returns (2 marks)
43. The current file of an auditor's working papers **MOST** likely would include a copy of the _____.
A. bank reconciliation
B. staff superannuation plan contract
C. the company's constitution
D. flowchart of the internal control activities (2 marks)

44. Cut-off tests designed to detect purchases made before the end of the year that have been recorded in the subsequent year most likely would provide assurance about management's assertion of _____.
A. completeness
B. valuation or allocation
C. existence or occurrence
D. presentation and disclosure (2 marks)
45. The reason why the auditor must consider whether it is appropriate to assume that the client will remain as a going concern is _____.
A. because this means that assets are valued on the basis that they will continue to be used for the purposes of conducting a business.
B. only if the client is facing bankruptcy and long-term debt is likely to be withdrawn
C. only if the client is listed on a stock exchange
D. because mitigating circumstances are not important (2 marks)
46. In the final analysis, the amount and kinds of evidential matter required to support the auditor's opinion should be determined by the _____.
A. professional standards
B. auditor's judgement
C. audit committee
D. rigorous statistical analysis (2 marks)
47. The reason why auditors must design audit procedures is to ensure that audit risk is _____.
A. reduced to zero
B. reduced to an acceptable low level
C. increased to an acceptable high level
D. less than 5% of net profit after tax (2 marks)
48. Which one of the following factors influences an auditor's determination of the auditability of an entity's financial statements?
A. The complexity of the accounting system
B. The existence of related-party transactions
C. The adequacy of the accounting records
D. The operating effectiveness of control procedures (2 marks)
49. The planning stage of an audit does not include _____.
A. gaining an understanding of the client
B. identification of factors that may affect the risk of a material misstatement in the financial report
C. development of an audit strategy and a risk and materiality assessment
D. audit execution and reporting (2 marks)
50. An auditor self-review threat arises when _____.
A. the auditor has a loan from the client
B. the auditor represents the client in negotiations with a third party
C. the auditor performs services for the client while working for the client
D. there is a long association between the assurance firm and its client (2 marks)
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ATD LEVEL III

PRINCIPLES OF AUDITING

FRIDAY: 25 April 2025. Afternoon Paper.

Time Allowed: 2 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. Which one of the following statements is **NOT** a primary objective of an external financial statement audit?
 - A. To detect fraud
 - B. To express an opinion on financial statement
 - C. To evaluate the effectiveness of internal controls
 - D. To ensure compliance with tax regulations(2 marks)
2. Which one of the following statements is the primary objective of the engagement letter in an audit?
 - A. To confirm the auditor's independence
 - B. To set the tone for the audit
 - C. To request financial information from the client
 - D. To establish the audit fee(2 marks)
3. Which one of the following statements is the primary responsibility of a board of directors?
 - A. Setting corporate strategy, overall direction, mission and vision
 - B. Caring for shareholder's interest
 - C. Reviewing and approving the use of resources
 - D. Controlling top management(2 marks)
4. In the context of audit sampling, "sampling risk" refers to _____.
 - A. risk that the sample chosen is not representative of the population
 - B. risk of not detecting a material misstatement in the financial statements
 - C. risk that the auditor's procedures will not detect fraud
 - D. risk of relying on management representations(2 marks)
5. Which one of the following statements is the primary purpose of the work programme in an audit?
 - A. To detail the audit team's schedule
 - B. To provide evidence for every audit procedure
 - C. To summarise financial statement amounts
 - D. To document the planned audit approach(2 marks)
6. Which one of the following audit assertions is concerned with whether assets and liabilities are actually recognised at given date?
 - A. Existence
 - B. Completeness
 - C. Valuation
 - D. Rights and obligations(2 marks)
7. The primary objective of an operational audit is to _____.
 - A. confirm the accuracy of financial statements
 - B. evaluate the efficiency and effectiveness of operations
 - C. detect fraudulent activities
 - D. assess compliance with tax regulations(2 marks)

8. Which one of the following statements is a key characteristic of a strong internal control system?
A. Centralisation of decision-making
B. Lack of segregation of duties
C. Documentation of policies and procedures
D. Minimal employee training (2 marks)
9. The risk that an auditor will not detect misstatement that exists in an assertion that could be material either individually or when aggregated with other misstatements is known as _____.
A. inherent risk
B. detection risk
C. control risk
D. audit risk (2 marks)
10. Which one of the following statements is the primary purpose of the code of professional conduct for auditors?
A. To set accounting standards
B. To define the scope of audit procedures
C. To promote ethical behaviour among auditors
D. To confirm the accuracy of financial statements (2 marks)
11. Which one of the following types of audit focuses on adherence to laws and regulations?
A. Financial statement audit
B. Operational audit
C. Compliance audit
D. Internal audit (2 marks)
12. Which one of the following statements is the primary responsibility of the internal audit function?
A. Ensuring compliance with external regulations
B. Providing assurance that internal control processes are operating effectively
C. Conducting fraud investigations within the organisation
D. Confirming that the financial statement are accurate and reliable (2 marks)
13. Which one of the following statements is the primary purpose of the going concern assumption in auditing?
A. To confirm the accuracy of financial statements
B. To assess the entity's ability to continue operating
C. To evaluate internal control effectiveness
D. To detect fraudulent activities (2 marks)
14. Which one of the following statements is the purpose of a management representation letter in an audit?
A. To confirm the auditor's independence and evaluate significant threats
B. To confirm accuracy and completeness of the information the management provided to the auditors.
C. To detail the audit procedures performed by observing analytical procedures.
D. To request additional audit evidence that is used to arrive at the conclusion of basing auditor's opinion (2 marks)
15. Giving an opinion on the fairness of the financial statements is generally regarded as the auditor's _____.
A. primary duty
B. secondary business
C. tertiary business
D. general business (2 marks)
16. The risk that the auditor will provide an inappropriate opinion on financial statements that contain material misstatements is called _____.
A. inherent risk
B. detection risk
C. control risk
D. audit risk (2 marks)
17. The primary objective of the International Standards on Auditing (ISA) is _____.
A. promoting ethical behaviour among auditors
B. ensuring compliance with tax regulations
C. providing a framework for the conduct of audits
D. detecting fraudulent activities (2 marks)

18. Which one of the following statements is an example of a substantive procedure?
- A. Inquiring about management's procedures
 - B. Confirming the effectiveness of internal controls
 - C. Testing details of account balances
 - D. Reviewing organisational policies
- (2 marks)
19. Which one of the following activities is an example of a control activity in internal control?
- A. Performing reconciliations
 - B. Setting organisational objectives
 - C. Developing accounting policies
 - D. Hiring competent personnel
- (2 marks)
20. The purpose of preventive controls in the context of internal control is to _____.
- A. Identify, correct and eliminate the occurrence of errors and fraud
 - B. Minimise the chances of errors and fraud before they occur
 - C. Monitor errors and fraud by taking corrective measures
 - D. Set the tone at the top
- (2 marks)
21. The impact of a strong internal control system on the auditor's risk assessment is _____.
- A. reduce overall audit risk
 - B. increased inherent risk
 - C. detailed substantive testing
 - D. increased detection risk
- (2 marks)
22. Which one of the following types of audit approach would be most appropriate when conducting an audit of a large, complex multinational company?
- A. A detailed substantive approach with minimal reliance on internal controls
 - B. A controls-based approach, with emphasis on understanding and testing internal controls
 - C. A comprehensive risk-based approach, focusing on high-risk areas
 - D. A non-intrusive approach, performing minimal substantive testing
- (2 marks)
23. An auditor is responsible for detecting material misstatements in the financial statements. Which one of the following factors influences the detection risk?
- A. The nature of the financial statements
 - B. The auditor's use of substantive procedures
 - C. The auditor's independence
 - D. The effectiveness of the client's internal controls
- (2 marks)
24. The audit opinion issued when the financial statements present a true and fair view in accordance with the applicable financial reporting framework is _____.
- A. unqualified opinion
 - B. modified opinion
 - C. adverse opinion
 - D. disclaimer of opinion
- (2 marks)
25. Which one of the following assertions does **NOT** relate to accruals and prepayments?
- A. Valuation
 - B. Existence
 - C. Cut-off
 - D. Completion
- (2 marks)
26. Which one of the following controls would help to ensure that all sales to customer are invoiced?
- A. Sending statement to customer showing sales invoices and receipts
 - B. Matching sales invoices to sales orders
 - C. Checking customer credit limits before dispatching goods
 - D. Matching goods dispatch notes to sales invoices
- (2 marks)

27. Analytical procedure in auditing is applicable in the following, **EXCEPT** _____.
 A. substantive procedures
 B. planning the audit
 C. test of controls
 D. overall review (2 marks)
28. Which one of the following statements is a limitation of the internal audit function?
 A. The internal auditor report is not circulated to the members
 B. The internal audit assignments are designed to meet the needs of the business
 C. Internal auditors might be employees of the company
 D. Internal auditors may report to an audit committee (2 marks)
29. Which of the following factors influence the form and content of audit working papers?
 (i) Risk of material misstatement.
 (ii) Expectation of identified risks.
 (iii) Nature of the package used for documentation.
 (iv) Cost to the audit.
 A. (i), (ii) and (iv)
 B. (i) and (ii)
 C. (i), (iii) and (iv)
 D. (ii) and (iv) (2 marks)
30. The auditor of Pineapple Ltd. is planning the audit work on trade receivables. Which one of the following procedures **CANNOT** be performed by use of computer assisted audit techniques (CAATS)?
 A. Selection of a sample of receivables for confirmation
 B. Calculation of receivables days
 C. Production of receivables confirmation letters
 D. Evaluation of adequacy of allowance for irrecoverable receivables (2 marks)
31. The auditor of Grace Company Ltd. is performing an audit procedure to confirm the company's ownership of motor vehicles. Which one of the following activities would provide the most persuasive evidence?
 A. Physical inspection of motor vehicles
 B. Inspection of vehicle registration documents
 C. Checking that the motor vehicles are recorded in the non-current assets register
 D. Review of the vehicle insurance documentation (2 marks)
32. Which one of the following audit procedures would provide the auditor with evidence of completion of inventory?
 A. Tracing test counts performed at inventory count to detect inventory count
 B. Reviewing physical condition of inventory when attending the inventory count
 C. Casting the inventory listing
 D. Vouching the cost of sample inventory items to suppliers' invoices (2 marks)
33. Which one of the following entities is required to perform an interim audit.
 A. Entities which are in the manufacturing sector
 B. Multinationals
 C. Entities that are suspicious of errors and frauds
 D. Entities that pay dividend at the middle of the year (2 marks)
34. Which one of the following entities is required to perform a continuous audit.
 A. Entities in the banking sector
 B. Entities in the public sector
 C. Entities in the private sector
 D. Small enterprises (2 marks)
35. Data mining is a set of computer-assisted techniques that use _____.
 A. unusual transactions
 B. sophisticated statistical data
 C. databases such as automated business intelligence
 D. investigative data (2 marks)

36. An attitude that includes a questioning mind and a critical assessment of audit evidence is referred to as _____.
A. due professional care
B. professional skepticism
C. reasonable assurance
D. supervision (2 marks)
37. The appointment of an auditor to fill a casual vacancy is done by _____.
A. the board of directors
B. the registrar of companies
C. the company secretary
D. the shareholders (2 marks)
38. The appointment of an auditor for a public limited company is done by _____.
A. the board of directors
B. the registrar of companies
C. the company secretary
D. the shareholders (2 marks)
39. Which one of the following statements is **NOT** an importance of auditor's independence.
A. Independence is a requirement by the Company's Act
B. Independence is a requirement for the auditor to act as a watchdog of the shareholders
C. Independence is necessary for effective performance of other non-audit services
D. Independence enables the auditor to form an opinion on true and fair view (2 marks)
40. Which one of the following statements describes an auditor's responsibility to detect errors and fraud?
A. An auditor should design an audit to provide reasonable assurance of detecting errors and fraud that are material to the financial statements
B. An auditor is responsible to detect material errors, but has no responsibility to detect fraud that is concealed through employee collusion or management override of internal control
C. An auditor has no responsibility to detect errors and fraud unless analytical procedures or tests of transactions identify conditions causing a reasonably prudent auditor to suspect that the financial statements were materially misstated
D. An auditor has no responsibility to detect errors and fraud because an auditor is not an insurer and an audit does not constitute a guarantee (2 marks)
41. The process of formulating strategies on how to perform an audit is called _____.
A. audit planning
B. substantive testing
C. compliance testing
D. auditing (2 marks)
42. The following are factors that an auditor should consider in deciding whether to use computer assisted audit techniques (CAATs), **EXCEPT** _____.
A. availability of skills
B. impracticability of manual tests
C. geographical distribution of the clients
D. the costs of acquiring the CAATs (2 marks)
43. The following are risks that the auditor may face when auditing in a computerised environment, **EXCEPT** _____.
A. loss of audit trail
B. reduction in arithmetic errors
C. unauthorised access and alteration to data
D. lack of physical evidence (2 marks)
44. The opinion an auditor is likely to issue if he is unable to verify a material amount of stock due to lack of adequate documentation is _____.
A. unqualified opinion
B. qualified opinion
C. adverse opinion
D. disclaimer opinion (2 marks)

45. The following are benefits of maintaining audit working papers, **EXCEPT** _____.
A. it assists in the detection of errors and frauds
B. they can be used as a basis of planning future audits
C. they can be used in court as evidence
D. they can be used as a basis of training junior staff (2 marks)
46. Working papers that have a predetermined format of presenting audit information are called _____.
A. automated working papers
B. standardised working papers
C. current audit file
D. permanent audit file (2 marks)
47. The following information forms part of the content of a current audit file, **EXCEPT** _____.
A. a description of the client's internal controls
B. details of key ratios and statistics of the client
C. a copy of the articles of association
D. a copy of the client's financial statements (2 marks)
48. The following are examples of irregularities, **EXCEPT** _____.
A. window dressing
B. carry over fraud
C. misapplication of accounting policies
D. falsification of documents (2 marks)
49. The following are ethical principles governing an auditor's professional responsibilities, **EXCEPT** _____.
A. independence
B. skills
C. integrity
D. objectivity (2 marks)
50. The primary focus of a financial statement audit is to confirm _____.
A. the efficiency and effectiveness of operations
B. compliance with laws and regulations
C. the fairness of the financial statements
D. the adequacy of internal controls (2 marks)
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ATD LEVEL III

PRINCIPLES OF AUDITING

THURSDAY: 5 December 2024. Afternoon Paper.

Time Allowed: 2 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. An auditor obtains audit evidence by reviewing the accounting records of an entity and performing the following audit procedures, **EXCEPT** _____.
 - A. updating accounting records
 - B. inquiry from staff and third parties
 - C. observation of operations in progress
 - D. inspection of processes being undertaken(2 marks)
2. Which one the following statements is **TRUE** about interim audit of the financial statements?
 - A. It is ideal for small entities with medium transactions
 - B. It is necessary where a company is contemplating a merger or takeover
 - C. It is a complete audit with the opinion of the auditor's report on whether the financial statements gives the true and fair view
 - D. It seeks to identify outdated procedures which needs replacement and therefore the auditor provides a recommendation for their replacement(2 marks)
3. Which one of the following statements is a limitation of auditing?
 - A. A partnership business with a complex profit-sharing agreement may require an independent examination of accounts to ensure accuracy and facilitate division of profit
 - B. All company information is accessible to the auditor; hence company secrets may leak to competitors
 - C. Borrowing of finances from third parties is enhanced with availability of unqualified audit report on the company's financial statements
 - D. Auditing protects the interest of shareholders who are not involved in the management of their investment in the company(2 marks)
4. Among the users of audited financial statements listed below, identify the users whose interest is for the purpose of regulating the business activities, economic planning and taxation.
 - A. Shareholders
 - B. Management
 - C. General public
 - D. Government(2 marks)
5. Which one of the following statements is **NOT** true about the final audit of financial statements?
 - A. An audit that is conducted within the accounting period
 - B. It is a complete audit with the opinion of the auditors' report on whether the financial statements give the true and fair view
 - C. Facilitated by the interim and continuous audit where appropriate
 - D. Can be conducted without interim audit in small entities(2 marks)
6. Which one of the following statements **ACCURATELY** describes "audit strategy"?
 - A. Details of the specific procedures to be carried out to implement the strategy and complete the audit
 - B. Procedures that the auditor performs at early planning stages to obtain information so that the engagement is performed in an effective manner
 - C. Determining the quantity and quality of evidence that will need to be gathered and staff that need to be assigned to the particular audit
 - D. A description in general terms of how the audit is to be carried out(2 marks)

7. Which one of the following is **NOT** a reason why an auditor should investigate a new client before accepting their appointment as auditors?
- A. Evaluate the client's standing in business community
 - B. Evaluate the client's business performance in the year under review
 - C. Evaluate the client's financial stability
 - D. Evaluate the client's relationship with its previous auditor
- (2 marks)
8. An audit program contains the following, **EXCEPT** _____.
- A. the audit objectives for each area being audited
 - B. the audit procedures to be carried out in meeting the objective
 - C. summary of resources required
 - D. a time budget in which hours are budgeted for various audit areas or procedures
- (2 marks)
9. The component of the audit risk that minimises the audit risk to an acceptable level is called _____.
- A. inherent risk
 - B. detection risk
 - C. control risk
 - D. business risk
- (2 marks)
10. Which of the following is **NOT** a judgement made on conclusion arrived by the auditor in expressing an unqualified opinion in his audit report.
- A. The financial statements have been prepared using appropriate accounting policies which have been consistently applied
 - B. The financial statements have been presented in a format developed by the managements in order to highlight certain items regardless of the recommended presentation format for financial statements
 - C. The financial statements have been prepared in accordance with relevant legislation, regulations or applicable accounting standards
 - D. There is adequate disclosure of all information relevant to the proper understanding of the financial statements
- (2 marks)
11. Fraudsters find reasons within the work environment and their private lives to commit crime. Which one of the following reasons is considered the strongest motivation to the crime of fraud?
- A. Opportunity to commit fraud
 - B. Pressure on the individual
 - C. Ability to rationalise the crime
 - D. Weak response to crime by management
- (2 marks)
12. Which one of the following types of audit evidence is considered more reliable?
- A. primary audit evidence
 - B. secondary audit evidence
 - C. hearsay audit evidence
 - D. circumstantial audit evidence
- (2 marks)
13. The audit manager has arranged for you and other members of the audit team to visit the client business premises to confirm physical fixed assets against the entity's fixed assets register.
Which one of the following techniques of obtaining audit evidence will you be applying in the exercise?
- A. Inspection
 - B. Observation
 - C. External confirmation
 - D. Inquiry
- (2 marks)
14. Which one of the following statements is **NOT** correct about the importance of audit working papers?
- A. Provide assurance that the work delegated by the audit partner has been properly completed
 - B. They are requirement by the legal and regulatory framework guiding the conduct of audit of financial statements
 - C. Provide evidence that an effective audit has been carried out
 - D. Retain a record of matters of continuing significance to future audits
- (2 marks)
15. The following are assertions that the auditor may confirm through substantive tests, **EXCEPT** _____.
- A. completeness
 - B. existence
 - C. occurrence
 - D. effectiveness of controls
- (2 marks)

16. Which one of the following assertions may be tested through analytical procedures?
- A. Accuracy
 - B. Occurrence
 - C. Existence
 - D. Rights and obligations
- (2 marks)

17. Which of the following enumerates the distinctive features of management audit?
- (i) It is an appraisal of both policies and actions.
 - (ii) It is preventive as well as creative check of cost accounting data.
 - (iii) It is organisation oriented.
 - (iv) It is dynamic and result oriented rather than simply procedure bound.
 - (v) It ensures the sound and healthy growth of business organisation.

Choose the correct answer from the options given below:

- A. (i), (ii), (iv)
 - B. (i), (iii), (v)
 - C. (ii), (iv), (v)
 - D. (i), (iv), (v)
- (2 marks)

18. Audit software performs the following functions, **EXCEPT** _____.
- A. calculations and comparison in analytical procedures
 - B. sampling programs to extract data for audit testing example select a sample of receivables for confirmation
 - C. directing the auditor to the substantive tests he should perform on account balances
 - D. scan a file to ensure that all documents in a series have been accounted for or to search for large and unusual items
- (2 marks)

19. Who among the following is responsible for the design, implementation and maintaining internal controls that are relevant to the preparation and fair presentation of financial statements that are free from material misstatement?
- A. Auditor
 - B. Management
 - C. Directors
 - D. Accounting staff
- (2 marks)

20. The relationship between control risk and detection risk is ordinarily _____.
- A. parallel
 - B. inverse
 - C. direct
 - D. equal
- (2 marks)

21. Which one of the following statements **BEST** describes an auditor's responsibility to detect errors and fraud?
- A. An auditor should design an audit to provide reasonable assurance of detecting errors and fraud that are material to the financial statements
 - B. An auditor has a responsibility to detect material errors, but has no responsibility to detect fraud that is concealed through employee collusion or management override of internal control
 - C. An auditor has no responsibility to detect errors and fraud unless analytical procedures or tests of transactions identify conditions causing a reasonably prudent auditor to suspect that the financial statements were materially misstated
 - D. An auditor has no responsibility to detect errors and fraud because an auditor is not an insurer and an audit does not constitute a guarantee
- (2 marks)

22. Inherent risk and control risk differ from detection risk in that inherent risk and control risk are _____.
- A. elements of audit risk while detection risk is not
 - B. functions of the client and its environment while detection risk is not
 - C. changed at the auditors discretion while detection risk is not
 - D. considered at the individual account-balance detection risk is not
- (2 marks)

23. Which one of the following terms is **NOT** an element of an audit?
- A. Independence
 - B. Integrity
 - C. Objectivity
 - D. Examination

(2 marks)

24. Which of the following statements **BEST** defines a statutory audit?
A. An audit carried out as per legal requirements
B. An audit carried out as per the Accountants Act
C. An audit carried out by all private entities
D. An audit carried out by public companies (2 marks)
25. Control risk should be assessed in terms of _____.
A. special controls
B. types of potential fraud
C. financial statement assertions
D. control environment factors (2 marks)
26. The following are rights of an auditor, **EXCEPT** _____.
A. access books of accounts at all times
B. get information and explanation required for conducting proper audit
C. to receive technical advice when conducting an audit
D. to sue clients whose accounts are not prepared according to standards (2 marks)
27. The Auditor General can outsource the following functions, **EXCEPT** _____.
A. forensic or its audits
B. valuation services
C. legal services
D. issuance of an audit opinion (2 marks)
28. The extent of reliance that the auditor places on the results of analytical procedures depend on _____.
A. materiality of the items involved
B. financial statements prepared by management
C. work of the internal auditor
D. materials of items purchased for resale (2 marks)
29. In designing written audit programs, an auditor should establish specific audit objectives that relate primarily to the _____.
A. financial statement assertions
B. cost-benefit of gathering evidence
C. selected audit techniques
D. timing of audit procedures (2 marks)
30. As generally conceived, the “audit committee” of a publicly held company should be made up of _____.
A. representatives of the major equity interests, bonds, preferred stock, common stock
B. members of the board of directors who are not officers or employees
C. the audit partner, the chief finance officer, the legal counsel and at least one outsider
D. representatives from client managements, investors, suppliers and customers (2 marks)
31. Which one of the following statements **CORRECTLY** describes the requirements and procedures for the appointment of an auditor under the Companies Act?
A. An auditor must be appointed by the shareholders at the annual general meeting and must hold office until the conclusion of the next annual general meeting
B. The board of directors has the sole authority to appoint the auditor without any need for shareholder approval
C. An auditor can be appointed for a term of five years without the possibility of reappointment
D. The audit committee must recommend the appointment of an auditor, but final approval lies solely with the management (2 marks)
32. An auditor should perform audit procedures designed to detect _____.
A. material misstatements
B. minor errors
C. illegal activities
D. managerial inefficiency (2 marks)

33. Which one of the following types of audit involves verifying the financial records of government bodies?
A. Compliance audit
B. Operational audit
C. Government audit
D. Public sector audit (2 marks)
34. The audit report that states that the financial statements are free from material misstatement is called _____.
A. qualified opinion
B. disclaimer of opinion
C. unqualified opinion
D. adverse opinion (2 marks)
35. Which one of the following terms is **NOT** an element of audit evidence?
A. Relevance
B. Reliability
C. Independence
D. Timeliness (2 marks)
36. If the auditor has doubts about the adequacy of internal controls, he should _____.
A. increase reliance on internal controls
B. perform more substantive testing
C. issue a disclaimer of opinion
D. perform less substantive testing (2 marks)
37. Which one of the following statements refers to a benefit of undertaking analytical procedures?
A. Decreasing substantive tests
B. Identifying unexpected trends
C. Verifying cash balances
D. Confirming receivables (2 marks)
38. Sampling is used in auditing primarily to _____.
A. reduce the cost of the audit
B. review all transactions
C. increase audit accuracy
D. test a representative portion of transactions (2 marks)
39. Internal control objectives include the following, **EXCEPT** _____.
A. safeguarding assets
B. ensuring the accuracy of financial reporting
C. improving employee performance
D. promoting operational efficiency (2 marks)
40. Which one of the following concepts refers to the auditor's requirement to remain unbiased?
A. Professional skepticism
B. Independence
C. Honesty
D. Integrity (2 marks)
41. When issuing unqualified opinion, the auditor who evaluated the audit findings should be satisfied that the _____.
A. estimates of known misstatement is documented in working papers
B. estimates of the total likely misstatement is less than materiality level
C. estimated of the total likely misstatement is more than materiality level
D. estimates of the total likely misstatement cannot be made (2 marks)
42. Capital profit imply profit earned _____.
A. from sale of fixed assets
B. through business transactions
C. from capital
D. from sale of client assets (2 marks)

43. Which one of the following should **NOT** be considered while determining the level of materiality for an audit?
- A. Prior years' errors
 - B. The auditor remuneration
 - C. Adjusted interim financial statement
 - D. Prior year financial statements
- (2 marks)
44. Which of the following statements is **NOT** an inherent limitation of internal control system?
- A. Management override
 - B. Abuse of authority
 - C. Collusion among employees
 - D. Inefficiency of internal auditor
- (2 marks)
45. Which one of the following statements **BEST** describes inherent risk?
- A. Risk that the auditor may not detect a material misstatement
 - B. Risk of material misstatement occurring without considering internal controls
 - C. Risk that controls will fail to prevent a material misstatement
 - D. Risk that an incorrect audit opinion will be issued
- (2 marks)
46. Which one of the following documents initiates the audit process?
- A. Engagement letter
 - B. Audit plan
 - C. Working papers
 - D. Audit report
- (2 marks)
47. In auditing, the process of matching a company's records to a third-party's records is called _____.
- A. inspection
 - B. confirmation
 - C. analytical procedures
 - D. observation
- (2 marks)
48. Which one of the following audit opinions might an auditor issue if he is unable to gather sufficient appropriate evidence, in the course of his audit?
- A. Unqualified opinion
 - B. Disclaimer of opinion
 - C. Qualified opinion
 - D. Adverse opinion
- (2 marks)
49. An auditor's reliance on internal controls reduces the need for _____.
- A. substantive testing
 - B. analytical procedures
 - C. audit planning
 - D. documentation
- (2 marks)
50. Which one of the following types of audit is classified according to the method of approach?
- A. Continuous audit
 - B. Statutory audit
 - C. Private audit
 - D. General audit
- (2 marks)
-



ATD LEVEL III

PRINCIPLES OF AUDITING

THURSDAY: 22 August 2024. Afternoon Paper.

Time Allowed: 2 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. Which one of the following documents does **NOT** form part of the financial statements subjected to an audit?
 - A. The statement of financial position
 - B. The statement of profit and loss
 - C. The fixed assets valuation report
 - D. The cash flow statement(2 marks)
2. The auditor may **NOT** consider _____ when determining the audit fee.
 - A. time to be spent during the audit, the nature of tasks and size
 - B. the level of responsibility or members of engagement team involved
 - C. type of contract entered into whether fixed or variable depending on the task carried
 - D. number of years the client expects the auditor to provide the audit services(2 marks)
3. Which one of the following is the correct list of the fundamental principles of ethics?
 - A. Integrity, objectivity, professional competence and due care, professional behaviour and confidentiality
 - B. Integrity, objectivity, skepticism, professional behaviour and due care and confidentiality
 - C. Integrity, discipline, objectivity, professional competence and due care and confidentiality
 - D. Integrity, consistency, objectivity, competence and due care, professional behaviour, confidentiality(2 marks)
4. Identify **TWO** elements that form part of an assurance engagement.
 - (i) A three-party relationship
 - (ii) Suitable criteria
 - (iii) Determination of materiality
 - (iv) An engagement letter
 - A. (i) and (ii)
 - B. (i) and (iii)
 - C. (ii) and (iii)
 - D. (i) and (iv)(2 marks)
5. When gaining an understanding of the specific business operations of an audit client, which one of the following matters would an auditor need to consider?
 - A. Acquisition or disposal of client business activities
 - B. Products and services and market of the clients business
 - C. Accounting principles and industry specific practice relevant to clients business
 - D. Leasing of property plant and equipment for use in the client business(2 marks)
6. Which one of the following types of audit evidence is considered most reliable?
 - A. Oral representations made by management
 - B. Documentary evidence obtained from external sources
 - C. Documentary evidence prepared by the entity
 - D. Inquiry of the client's internal audit staff(2 marks)

7. As part of the review stage of an audit, the auditor will consider subsequent events. Up to what date does the auditor have an active responsibility to perform procedures designed to identify subsequent events?
- A. The reporting date
 - B. The date of issue of the financial statements
 - C. The date of the approval of the financial statements
 - D. The date of the auditor's report
- (2 marks)
8. What is the purpose of using analytical procedures during an audit?
- A. To test the operational effectiveness of internal controls
 - B. To assess the risk of material misstatement
 - C. To obtain direct evidence about account balances
 - D. To identify possible areas of misstatement
- (2 marks)
9. All work carried out by the external auditors should be documented in their working papers regardless of whether it relates to an interim or a final audit. Which one of the following statements is **NOT** a valid reason for producing audit documentation?
- A. It ensures that the auditors cannot be sued for negligence
 - B. It enables senior team members to direct supervise and review the audit work
 - C. It provides evidence for the basis of key conclusions
 - D. It enables quality control reviews to be performed
- (2 marks)
10. Which one of the following statements is **TRUE** regarding materiality in accordance with International Standards on Auditing (ISA) 320, "Materiality in planning and performing an audit"?
- A. Performance materiality is set at a lower level than materiality for financial statements
 - B. The most appropriate measure of materiality is 1% to 2% of revenue
 - C. Performance materiality is set at a higher level than materiality for the financial statements
 - D. Materiality levels are the same for all amounts in the financial statements
- (2 marks)
11. The auditors of Kivulini Co. believe that trade receivables are materially misstated because some amounts appear to be irrecoverable. The directors have refused to adjust the financial statements.
- What form of audit opinion should the auditor give?
- A. A qualified opinion on the basis of material misstatement
 - B. A qualified opinion on the basis of recoverability of the debts
 - C. An unmodified opinion on the basis of recoverability of the debts
 - D. An adverse opinion on the basis of a material misstatement
- (2 marks)
12. Which one of the following would **NOT** be expected to achieve an acceptable audit risk?
- A. High inherent risk, high control risk, low amount of audit work
 - B. Low inherent risk, low control risk, high detection risk
 - C. High inherent risk, high control risk, low detection risk
 - D. Low inherent risk, low control risk, high amount of audit work
- (2 marks)
13. Which one of the following audit procedures would provide the most reliable evidence about the existence of a company's fixed assets?
- A. Inquiry of management
 - B. Recalculation of depreciation
 - C. Inspection of the assets
 - D. Review of the fixed asset ledger
- (2 marks)
14. Which one of the following standards requires that the auditor plans the audit to provide reasonable assurance that the financial statements are free of material misstatement?
- A. General Standard
 - B. Standards of Fieldwork
 - C. Reporting Standards
 - D. Quality Control Standards
- (2 marks)
15. What is the term used to describe the probability that a material misstatement could occur and not be detected by the client's internal controls?
- A. Detection Risk
 - B. Inherent Risk
 - C. Control Risk
 - D. Audit Risk
- (2 marks)

16. What should an auditor consider when evaluating the sufficiency of audit evidence?
A. Relevance and reliability
B. Cost of obtaining the evidence
C. Timeliness of the evidence
D. Quantity of the evidence alone (2 marks)
17. Which one of the following statements would **NOT** be considered as an inherent limitation of internal controls?
A. Collusion among employees
B. Management override of controls
C. Cost-benefit considerations
D. Detailed procedures for transaction recording (2 marks)
18. In which phase of the audit would an auditor be most likely to perform substantive procedures?
A. Planning phase
B. Interim phase
C. Fieldwork phase
D. Reporting phase (2 marks)
19. Which one of the following documents describes the nature, timing and extent of the audit procedures to be performed?
A. Engagement Letter
B. Audit Plan
C. Audit Report
D. Management representation letter (2 marks)
20. The following are types of audit evidence, **EXCEPT** _____.
A. Observations
B. Confirmations
C. Ratios
D. Recalculations (2 marks)
21. Which one of the following activities is **NOT** a step in the audit process?
A. Planning the audit
B. Testing and evaluating controls
C. Reporting on the audit
D. Providing management services (2 marks)
22. Which one of the following audit procedures would be most appropriate for testing the completeness assertion for accounts payable?
A. Testing and evaluating controls
B. Inspecting receiving reports for goods received before year-end
C. Recalculating invoices
D. Examining canceled checks (2 marks)
23. What is the purpose of an audit trail?
A. To facilitate the auditor's understanding of internal controls
B. To provide evidence supporting the amounts recorded in the financial statements
C. To serve as a primary source of audit evidence
D. To document the auditor's conclusion about the financial statements (2 marks)
24. Which one of the following types of audit reports is issued when the financial statements are free of material misstatement?
A. Qualified opinion
B. Adverse opinion
C. Disclaimer of opinion
D. Unqualified opinion (2 marks)
25. When is an auditor required to communicate significant deficiencies and material weaknesses in internal control to those charged with governance?
A. Immediately upon discovery
B. At the end of the audit
C. During the interim audit phase
D. During audit planning process (2 marks)

26. What is the primary objective of compliance audits?
A. To verify the accuracy of financial statements
B. To ensure adherence to policies and procedures
C. To detect fraud and other irregularities
D. To evaluate the effectiveness of internal controls (2 marks)
27. An auditor's duty to verify whether loans and advances have been properly secured or not is referred to as _____.
A. contractual duties
B. statutory duties
C. certain duties imposed by legal or court decisions
D. duties arising out of professional etiquette (2 marks)
28. The auditor, in conducting the audit has the following rights, **EXCEPT** _____.
A. a right of access at all times to the books, accounts and vouchers of the company
B. the right to obtain from officers (including directors) of the company such explanations and information that is required
C. the right to make a report to the members on their findings including failure on the part of the officers of the company to supply all information and explanations
D. the right to recommend hiring and firing of accounting staff in the company where need for more efficiency and cooperation is detected (2 marks)
29. Which one of the following statements is **NOT** a primary duty of the external auditor?
A. To form an opinion as to whether the financial statements are true and fair
B. To ensure the company has kept proper accounting records that agree with the financial statements.
C. To detect and report on any frauds and errors in the financial statements.
D. To ensure the financial statements comply with statutory and stock market regulations and that appropriate accounting policies have been applied consistently (2 marks)
30. Inherent risk and control risk differ from detection risk in that inherent risk and control risk are _____.
A. elements of audit risk while detection risk is not
B. functions of the client and its environment while detection risk is not
C. changed at the auditor's discretion while detection risk is not
D. considered at the individual account- balance detection risk is not (2 marks)
31. In designing written audit programs, an auditor should establish specific audit objectives that relate primarily to the _____.
A. financial statement assertions
B. cost – benefit of gathering evidence
C. selected audit techniques
D. timing of audit procedures (2 marks)
32. Which one the following statements explains the term “Internal audit”?
A. Audit undertaken to ascertain truth and fairness of state of affairs
B. Audit of the financial statements of an entity in order to demonstrate conformity with quality systems
C. Audit undertaken by employees of organisation to check financial irregularities
D. Audit by an independent auditor to improve internal affairs (2 marks)
33. The first auditor of a company will hold office _____.
A. for a period of one year
B. until a statutory meeting is held
C. until the conclusion of the first annual general meeting
D. until a new auditor is appointed (2 marks)
34. Capital profit implies profit earned _____.
A. from sale of non-current assets
B. through business transactions
C. from other sources of capital
D. from sale of current assets (2 marks)

35. The evaluation of a company's performance against planned goals to its community is known as _____.
A. cost audit
B. social audit
C. management audit
D. tax audit (2 marks)
36. Final audit is also known as _____.
A. periodical audit
B. standard audit
C. efficient audit
D. operational audit (2 marks)
37. Internal peer review is _____.
A. done by the audit engagement team internally
B. where an independent partner who did not participate in the audit is called upon to review the working papers
C. done to determine whether an audit organisation's quality control system is suitably designed and is in place and operating effectively
D. an independent review of audit firm auditing an accounting practice (2 marks)
38. The following are source of audit evidence, **EXCEPT** _____.
A. accounting systems and underlying documents
B. tangible assets
C. management and employees
D. financial statements (2 marks)
39. The following are reasons for using computer assisted audit techniques (CAATs), **EXCEPT** _____.
A. lack of a visible paper trail may require the use of CAATs in compliance and substantive procedures
B. ensuring audit findings and conclusions are supported by appropriate analysis and interpretation
C. need to increase audit quality and comply with auditing standards
D. CAATs cannot be manipulated by audit staff because they are more reliable than manual systems (2 marks)
40. An embedded audit facility is also known as _____.
A. resident audit software
B. generalised audit software
C. testing software
D. audit software (2 marks)
41. Which one of the following entities is required by law to perform an audit?
A. Limited liability partnership
B. Non-governmental entity
C. Sole proprietorship
D. Public Limited Company (2 marks)
42. The following are techniques of ascertaining the existence of internal controls, **EXCEPT** _____.
A. Observation of client's procedures
B. Inspection of documents
C. Use of internal control evaluation questionnaire
D. Evaluating risk assessment strategy (2 marks)
43. Which one of the following factors **CANNOT** expose an auditor to criminal liability?
A. Breach of the duty of care
B. Allowing his/her name to be used on financial statements he/she never audited
C. Assisting the management to commit a fraud
D. Continuing holding office knowing well that he/she is not qualified to hold office (2 marks)
44. Which one of the following strategies would be a criterion for selecting debtors for sampling?
A. Debtors with debit balances
B. Debtors with credit balances
C. Immaterial debtors
D. Familiar debtors (2 marks)

45. Which one of the following activities is **NOT** a procedure that can be performed using audit software?
A. Stock taking
B. Sample selection
C. Analytical review procedures
D. Testing violations of system limits (2 marks)
46. What is the main purpose of an auditor's report?
A. It marks the conclusion of the audit
B. It determines if too much money was given to an organisation
C. It can be used in a court of law
D. It enables the auditor to communicate the audit opinion on the financial statements (2 marks)
47. What does the term "audit documentation" refer to?
A. The financial statements being audited
B. The records and work-papers of the auditor
C. The engagement letter and audit plan
D. The client's internal documents (2 marks)
48. Which one of the following activities is an example of a substantive procedure?
A. Reviewing the client's documentation of internal controls
B. Observing the client's physical inventory count
C. Inspecting documents for evidence of authorisation
D. Confirming accounts receivable with customers (2 marks)
49. Which one of the following measures is **NOT** an access control?
A. Data encryption
B. Biometric keys
C. Passwords
D. Hash totals (2 marks)
50. Auditors report consist of the following elements, **EXCEPT** _____.
A. auditors qualification
B. date of the report
C. auditor's address
D. auditor's signature (2 marks)
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ATD LEVEL III

PRINCIPLES OF AUDITING

THURSDAY: 25 April 2024. Afternoon Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. Which one of the following statements **BEST** explains the primary objective of auditing?
 - A. To examine books of account and vouchers of a business and form an opinion
 - B. To detect fraud and errors and report to the management
 - C. To prepare books of account from vouchers of a business
 - D. To express an opinion on whether the financial statements give a true and fair view(2 marks)
2. What does the term “true” mean in auditing?
 - A. The information in the financial statements is free from misstatements
 - B. The information in the financial statement has been prepared correctly
 - C. The information in the financial statements is free from errors
 - D. Errors and fraud may not be detected from the financial statements(2 marks)
3. Which one of the following parties is an internal user of audited financial statements?
 - A. Investors
 - B. Owners
 - C. Creditors
 - D. Debtors(2 marks)
4. Which one of the following is a classification of audit according to the method of approach?
 - A. Continuous audits
 - B. Statutory audits
 - C. Private audits
 - D. General audits(2 marks)
5. In which of the following situations is the auditor **NOT** required to deliver a written statement of circumstances?
 - A. If the auditor proposes to issue a modified auditors report
 - B. If the auditor resigns before expiry of their term of office
 - C. If the auditor is removed from office
 - D. If the auditor does not seek reappointment at the next annual general meeting for any reason(2 marks)
6. Which one of the following statements is an advantage of continuous audit?
 - A. Errors and fraud are discovered early and corrective action taken
 - B. It facilitates completion of final audit as part of the company’s financial periods
 - C. The audit will provide a feedback to the management regarding the procedures not followed
 - D. The type of audit is cheap to the client because of the long hours audit staff take(2 marks)
7. What is the main responsibility of management with regards to the financial statements?
 - A. To employ external auditors to handle management accounts
 - B. To examine and audit financial statements
 - C. To report to shareholder’s fraud committed by staff
 - D. To prepare and present the financial statements(2 marks)

8. Which of the following parties is ineligible to appoint an external auditor?
A. Directors
B. Shareholders
C. Senior management
D. Registrar of companies (2 marks)
9. Choose one of the following reason that may cause the removal of an auditor from office?
A. Disqualification by the Companies Act
B. Qualification of audit report
C. Resignation
D. Failure of the auditor to detect errors and fraud (2 marks)
10. Letter of internal weakness is also referred to as _____.
A. Management letter
B. Letter of engagement
C. Appointment letter
D. Letter of representation (2 marks)
11. The other name for teeming and lading is _____.
A. Fraud that involve money and items
B. Delayed accounting
C. Misappropriation
D. Misapplication of accounting funds (2 marks)
12. Which one of the following errors might affect the balancing of a trial balance?
A. Errors of principle
B. Casting errors
C. Errors of omission
D. Compensating errors (2 marks)
13. The following are primary purpose of the risk assessment procedures in an audit **EXCEPT** _____.
A. Confirming specific account balances
B. Identifying areas of potential fraud
C. Testing internal controls
D. Confirming the correctness of the financial statements (2 marks)
14. Which one of the following statements is **NOT** a purpose of audit working papers?
A. To coordinate audit examination
B. To support the financial statements
C. To assist in preparation of the audit report
D. To provide evidence of the audit work done (2 marks)
15. In the context of audit evidence, which one of the following is considered the most reliable?
A. Oral representations
B. Documentary evidence
C. Observation evidence
D. Analytical procedures (2 marks)
16. Who among the following persons can appoint an auditor of a listed company if no auditor is appointed at the annual general meeting?
A. The registrar of companies
B. The directors
C. The shareholders
D. The investors (2 marks)
17. Which one of the following is an inherent limitation of internal control?
A. Lack of segregation of duties
B. Inadequate documentation
C. Human error
D. Poor management oversight (2 marks)

18. What is the primary purpose of the work programme in an audit?
A. Detailing the audit team's schedule
B. Providing evidence for every audit procedure
C. Summarising financial statement amounts
D. Documenting the planned audit approach (2 marks)
19. What is the primary purpose of the going concern assumption in auditing?
A. Confirming the accuracy of financial statements
B. Assessing the entity's ability to continue operating
C. Evaluating internal control effectiveness
D. Detecting fraudulent activities (2 marks)
20. Which one of the following is **NOT** a type of audit opinion?
A. Disclaimer opinion
B. Adverse opinion
C. Expressed opinion
D. Unqualified opinion (2 marks)
21. The following are a component of audit risk **EXCEPT** _____.
A. Control risk
B. Detection risk
C. Default risk
D. Inherent risk (2 marks)
22. Which one of the following statements is **NOT** an objective of an audit?
A. To independently examine books of account and express an opinion
B. To state whether proper books of account and vouchers of the business are maintained
C. To prevent errors and frauds from occurring
D. To issue an audit report (2 marks)
23. In the context of internal control, what is segregation of duties?
A. Rotating employees through different roles
B. Assigning different responsibilities to different individuals
C. Combining incompatible functions to enhance efficiency
D. Documenting all business processes (2 marks)
24. Which of the following statements is **NOT** correct in relation to the audit opinion? The audit opinion is reached after _____.
A. Extensive materiality assessment has been performed
B. Extensive testing of controls and substantive tests on transactions and balances for validity accuracy and completeness of recording
C. Extensive verification procedures have been performed to test for existence, ownership, valuation presentation and disclosure of items in the financial statements
D. Extensive review of whether the financial statements comply with applicable accounting standards and legal requirements (2 marks)
25. The following are some of the functions of the Institute of Public Accountants of Kenya (ICPAK), **EXCEPT** _____.
A. Establishing continuing professional development for its members
B. Setting ethical requirements of its members
C. Finding and allocating audit and assurance clients to its members
D. Providing thought leadership on matters of finance and accounting in Kenya (2 marks)
26. Which of the following matters might an auditor consider when gaining an understanding of the specific business operations of an audit client?
A. Acquisition or disposal of client business activities
B. Products and services and market of the client's business
C. Accounting principles and industry specific practice relevant to client's business
D. Leasing of property plant and equipment for use in the client business (2 marks)

27. The financial statements of TLC Co. have been prepared on the going concern basis, but the auditor believes that there is no realistic chance of the company surviving for more than a few months. The note refers to the going concern matters, but the directors refuse to change the basis on which the financial statements have been prepared. Which of the following correctly describe the auditor's report?
- A. An unmodified opinion and a separate section headed 'material uncertainty related to going concern'
 - B. A qualified opinion
 - C. An adverse opinion
 - D. Disclaimer of opinion
- (2 marks)
28. The audit work has been planned on the basis that internal controls are expected to be effective. However, the planned tests of controls show that this is not infact the case and the controls cannot be relied on. Which of the following **TWO** actions taken together could amount to the appropriate audit response?
- (i) Modifying the audit plan to test controls more thoroughly.
 - (ii) Continue with audit work as planned.
 - (iii) Inform management about the internal control's deficiencies.
 - (iv) Modify the audit plan to adopt a substantive approach.
- A. (i) and (ii)
 - B. (ii) and (iv)
 - C. (i) and (iii)
 - D. (iii) and (iv)
- (2 marks)
29. Audit procedures performed by the auditor will reduce which of the following risks?
- A. Inherent risk and control risk
 - B. Control risk only
 - C. Inherent risk, control risk and detection risk
 - D. Detection risk only
- (2 marks)
30. Audit procedures on credit notes issued by a company shortly after its year end would be an appropriate response to which of the following assessed risks?
- A. Occurrence of sales
 - B. Completeness of cash
 - C. Completeness of sales
 - D. Existence of inventory
- (2 marks)
31. An irregularity is a general term referring to _____ and _____.
- A. Risk and fraud
 - B. Errors and fraud
 - C. Errors and risks
 - D. Risks and misstatements
- (2 marks)
32. Which of the following is **NOT** an example of documents that an auditor should maintain?
- A. Audit programs
 - B. Issues memoranda
 - C. Letters of confirmation and representation
 - D. Clients vouchers and source documents
- (2 marks)
33. _____ is the measure of the quantity of audit evidence which is meant to eliminate any element of doubt.
- A. Validity
 - B. Relevance
 - C. Reliability
 - D. Sufficiency
- (2 marks)
34. _____ are controls which relate to the environment within which computer-based accounting systems are developed, maintained and operated with an aim of providing reasonable assurance that the overall objectives of internal controls are achieved.
- A. Application controls
 - B. General controls
 - C. Access controls
 - D. Input controls
- (2 marks)

35. Which one of the following statements is **NOT** an advantage of using computer-assisted audit techniques (CAATs)?
- A. CAATs allow auditors to save time and test more items
 - B. Auditors may require the client's permission to use CAATs
 - C. CAATs enable auditors more freedom with their work and focus on critical areas
 - D. CAATs let auditors collect more evidence and form better opinions regarding their clients (2 marks)
36. Which of the following statements is **TRUE** about an interim audit?
- A. Interim audits culminate in the auditor issuing an audit opinion
 - B. Interim audits are carried out by entities that are authorised to declare and issue dividends at the end of the year
 - C. Interim audits result to higher costs compared to continuous audits
 - D. Interim audits do not require intense planning (2 marks)
37. The following are benefits of an audit to a partnership **EXCEPT**_____.
- A. It helps partners to settle their accounts and hence minimise disputes
 - B. It ensures that the partnership business is run in compliance with the Company's Act
 - C. It enhances the credibility of financial statements hence they can be used to obtain loans from financial statements
 - D. Valuable advice is given to the partners on how to run an efficient business (2 marks)
38. _____ is the process of assessing a client to establish whether an audit firm can form a long term relationship with the client.
- A. Engagement process
 - B. Client acceptance
 - C. Client screening
 - D. Planning process (2 marks)
39. What is the appropriate response if a prospective client does not give permission to a proposed new auditor to communicate with the existing or predecessor auditor?
- A. Decline the appointment
 - B. Attempt to find out the information by other means and then decide on whether to accept or decline the appointment
 - C. Accept the appointment anyway as communication is only a matter of professional courtesy
 - D. Contact the existing auditor anyway (2 marks)
40. The auditors becomes aware after the financial statements with unmodified audit opinion have been issued to members that they contain a material misstatement. The appropriate action the auditor should take is _____.
- A. No action is needed because the audit has been complete
 - B. Seek legal advice
 - C. Discuss how management intends to address the matter
 - D. Carry out procedures on the necessary amendments (2 marks)
41. A review of invoices received and paid shortly after the year end will provide evidence about the completeness of _____.
- A. Prepayments and expenses
 - B. Expenses and cash
 - C. Prepayments and accruals
 - D. Expenses and accruals (2 marks)
42. With regard to audit risk, which one of the following statements is **INCORRECT**?
- A. Audit risk includes the risk that material errors will occur
 - B. The risk that the client system of internal control will not prevent or detect such errors
 - C. The risk that the client system of control will detect errors and fraud
 - D. The risk that any remaining material errors will not be detected by the auditor (2 marks)
43. The extent of reliance that the auditor places on the results of analytical procedures depends on _____.
- A. The materiality of the items involved
 - B. The financial statements prepared by management
 - C. The work of the internal auditor
 - D. The materials of items purchased for resale (2 marks)

44. Computer assisted audit techniques (CAATs) may be used in performing the following audit procedures **EXCEPT** _____.
- A. Analytical review procedures
 - B. Compliance tests of general controls
 - C. Posting and reviewing transaction
 - D. Compliance tests of application control
- (2 marks)
45. Computer programs used by the auditor to interrogate a client's computer files are called?
- A. Audit packages
 - B. Audit software
 - C. Computer assisted audit techniques (CAATs)
 - D. Audit quick books
- (2 marks)
46. Which assertion is concerned with whether transactions are recorded in the correct accounting period?
- A. Existence
 - B. Completeness
 - C. Cut-off
 - D. Rights and obligations
- (2 marks)
47. The following are elements of an internal control system **EXCEPT** _____.
- A. Control activities
 - B. Segregation of duties
 - C. Information system
 - D. Risk assessment process
- (2 marks)
48. _____ is a formulation of strategies that auditors adopt in the conduct of their audit.
- A. Audit programme
 - B. Audit documentation
 - C. Audit report
 - D. Audit plan
- (2 marks)
49. Which one of the following statements identifies a fraud and makes the most appropriate recommendation to prevent it?
- A. Lapping- ensuring that cashiers do not have access to the debtor's records
 - B. Window dressing- regular counting of inventory
 - C. Ghost workers- immediate banking of cash collected
 - D. Fictitious purchases- installing CCTV cameras
- (2 marks)
50. A list of assets, liabilities and equity can be found in which of the following statement?
- A. Statement of profit or loss
 - B. Statement of cash flows
 - C. Statement of financial position
 - D. Statement of equity
- (2 marks)
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ATD LEVEL III

PRINCIPLES OF AUDITING

TUESDAY: 5 December 2023. Afternoon Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Identify **FIVE** advantages of undertaking an audit exercise by an organisation. (5 marks)
- (b) It is the responsibility of the directors of a company to prepare financial statements that are presented to the shareholders upon the completion of the audit process.

Required:

Apart from shareholders, describe **FOUR** other users of audited financial statements. (4 marks)

- (c) Explain the following components of audit risks:
- (i) Control risks. (2 marks)
- (ii) Detective risks. (2 marks)
- (iii) Inherent risks. (2 marks)
- (d) The directors of Tuliko Company Ltd. have approached you with the intentions of appointing your firm as their auditors for the next financial year. They have not given any reason for their desire to replace the current auditor except that they criticise his quality of work and feel that they are not getting value for their money.

Required:

Analyse **FIVE** reasons why you should communicate with the previous auditor before accepting the new appointment from the directors of Tuliko Company Ltd. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) An audit software refers to a computer program developed to assist auditors in the conduct of their audit work.

Required:

Describe **FOUR** types of software that the auditor may use in obtaining audit evidence to support his conclusions in the audit of a computerised accounting system. (8 marks)

- (b) An internal control system is essential to every form of business. It is crucial to an effective financial accounting system and helps the auditor in assessing risk of material misstatement in the financial statements. The auditor has a responsibility to test the existence and effectiveness of the internal control system as part of the audit process.

Required:

Discuss **THREE** methods that the auditor might use in order to ascertain that the internal control system of a client is working. (6 marks)

- (c) List **SIX** advantages of audit working papers. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain **THREE** types of audit opinions. (6 marks)
- (b) Discuss **THREE** types of errors that are likely to be committed during the preparation of financial statements of an organisation. (6 marks)
- (c) (i) Define the term “interim audit”. (2 marks)
- (ii) Anita Jones is one of the directors of Bestfoods Ltd., a company that you audit. Anita does not find the need to conduct an interim audit. She states that, it is only a way of increasing audit fees and that it adds no value to the company.

Required:

Explain to Anita Jones **THREE** benefits that Bestfoods Ltd. will enjoy from carrying out an interim audit. (6 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) Highlight **FOUR** factors that could increase the detection of risk in the course of auditing. (4 marks)
- (b) Explain **FOUR** methods that an auditor could use in gathering audit evidence. (8 marks)
- (c) Working papers are the record of the work done by the auditor. However, they do not contain everything that the auditor does. The content and form of the working papers are dependent on the auditor’s judgement.

Required:

Enumerate **FIVE** factors that could guide the auditor in deciding the content and nature of his working papers. (5 marks)

- (d) Outline **THREE** components of an internal control system. (3 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) (i) Explain the term “money laundering”. (2 marks)
- (ii) Describe **THREE** stages in a money laundering scheme. (6 marks)
- (b) Explain **SIX** rights of an auditor. (12 marks)
(Total: 20 marks)
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ATD LEVEL III

PRINCIPLES OF AUDITING

TUESDAY: 22 August 2023. Afternoon Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Explain the meaning of the following terms in relation to auditing in a computerised environment:
- (i) Audit trail. (2 marks)
 - (ii) Auditing around the computer. (2 marks)
 - (iii) Auditing through the computer. (2 marks)
- (b) Define the following terms as used in Computer Assisted Audit Techniques (CAATs):
- (i) Test data. (2 marks)
 - (ii) Audit software. (2 marks)
- (c) Describe **SIX** internal control procedures for a sales unit in an organisation. (6 marks)
- (d) Explain **FOUR** ways in which an auditor's independence might be threatened. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) List **SIX** contents of an audit note book. (6 marks)
- (b) Outline **SIX** benefits that would accrue to the auditor for using computerised accounting systems. (6 marks)
- (c) Evaluate **FOUR** benefits that might accrue to the Internal Audit Department of an organisation for working closely with the external auditors. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Your audit team has decided to adopt statistical sampling in analysing audit data for a construction company.
- Summarise **THREE** advantages of using statistical sampling technique in auditing. (6 marks)
- (b) Highlight **FOUR** factors that might cast doubt on the going concern of a company. (4 marks)
- (c) Analyse **THREE** ways in which an auditor might minimise risk during an audit. (6 marks)
- (d) Explain **TWO** reasons why an auditor is required to attend a client's annual stock take. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) In relation to components of auditor's report, describe **THREE** responsibilities of the directors of a company in relation to the accounting function. (6 marks)
 - (b) Explain **THREE** benefits of undertaking an interim audit to the auditor. (6 marks)
 - (c) Highlight **FOUR** challenges that an auditor might encounter in the development and implementation of audit plans. (4 marks)
 - (d) Enumerate **FOUR** reasons why debtor circularisation is an important source of audit evidence. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain **THREE** reasons why the concept of professional independence of the auditor is important. (6 marks)
- (b) Discuss **FOUR** differences between "auditing" and "accounting". (8 marks)
- (c) You are an audit trainee in XYZ Ltd.

Required:

Explain **SIX** control measures that you would recommend to the management of the company to adopt so as to minimise incidences of fraud. (6 marks)

(Total: 20 marks)

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ATD LEVEL III

PRINCIPLES OF AUDITING

TUESDAY: 25 April 2023. Afternoon Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) During the planning of an audit for Jikaze Ltd., who is your new client, the Audit Supervisor emphasised for more time to be allocated in peer reviewing of the audit working papers to ensure that the audit findings are well supported by sufficient audit evidence.

Required:

- (i) Explain **FIVE** objectives of undertaking peer review. (5 marks)
- (ii) Propose **FIVE** reasons for maintaining good audit working papers. (5 marks)
- (b) You are the Audit Manager for Hesabu Audit Firm (CPA-K). Directors of SKL Ltd have appointed your firm as their new auditors to take over in the upcoming financial year. The directors are of the opinion that the current auditors do not give value for money audit.

Required:

Describe **THREE** ethical matters you might take into consideration before your firm could accept the appointment as auditors of SKL Ltd. (6 marks)

- (c) Enumerate **FOUR** factors that professional accountants might consider in deciding whether to disclose confidential information in the course of an audit. (4 marks)

(Total: 20 marks)

QUESTION TWO

Your internal audit department is in the process of installing an audit software that would assist in continuously analysing the huge data generated by the business operations within the organisation. The Head of Internal Audit has requested you to prepare a checklist of suitable access controls that the developers could ensure are installed in the organisation audit software.

Required:

- (a) Recommend **FIVE** suitable access controls for the audit software. (10 marks)
- (b) Highlight **SIX** contents of a current audit file. (6 marks)
- (c) State **FOUR** criteria which disqualifies a person from acting as the external auditor of a company. (4 marks)

(Total: 20marks)

QUESTION THREE

- (a) Amani Ltd. is a company that supplies pharmaceutical products. The company has been your client for the last five years. The company recently transited from the manual operations to computerised work environment. This has also initiated changes in the audit process through usage of Computer Assisted Audit Techniques (CAATs).

Required:

- (i) Explain **FOUR** advantages of adopting Computer Assisted Audit Techniques (CAATs) in auditing. (4 marks)
- (ii) Propose **FIVE** factors to consider when using Computer Assisted Audit Techniques (CAATs). (5 marks)

- (b) Your firm has recently recruited a team of new auditors under a Graduate Trainee Program. As part of induction, you are required to train them on reliability of audit evidence.

Required:

- (i) Present to the team **THREE** factors that might influence the level of reliability of audit evidence. (6 marks)
- (ii) Highlight **FIVE** duties of an external auditor. (5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Jackie and Paul Associates, a recently established audit firm, has many new clients. The Senior Auditor has appointed you to lead an audit assignment on one of these new clients.

Required:

Discuss **SIX** audit procedures you could undertake when planning the audit for a new client. (6 marks)

- (b) You have been appointed as the first auditor of ABC Ltd. In the process of gaining understanding of the business of the company, you have realised that the company has a weak internal control system.

Required:

Analyse **FOUR** actions you might take when an internal control system is identified as weak. (4 marks)

- (c) Evaluate **SIX** benefits that could accrue to a partnership business upon conducting a statutory audit. (6 marks)

- (d) State **FOUR** fundamental principles that auditors are required to adhere to in the course of their audit work. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Discuss **TWO** reasons why it is important to obtain a good understanding of the client's industry and external environment. (4 marks)

- (b) Explain **FOUR** advantages of planning in the conduct of an audit. (4 marks)

- (c) Describe **SIX** internal control procedures for a purchasing unit of an organisation. (12 marks)

(Total: 20 marks)

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ATD LEVEL III

PRINCIPLES OF AUDITING

TUESDAY: 6 December 2022. Afternoon Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) During an induction programme to the new auditors, the Audit Senior emphasised on the need for confidentiality of the auditors in execution of their duties.

Required:

- (i) Define the principle of confidentiality. (2 marks)
 - (ii) Enumerate **FOUR** circumstances where professional accountants could be required to disclose confidential information. (4 marks)
- (b) Explain the following types of audit evidence:
- (i) Physical examination. (2 marks)
 - (ii) Documentary. (2 marks)
 - (iii) Oral. (2 marks)
- (c) Describe **FOUR** limitations of audit. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Analyse **SIX** internal control systems that a company should have in place to prevent and detect errors. (6 marks)
- (b) Your firm has been appointed as the auditor for ABC Ltd. that deals with the manufacturing of plastic products. The Audit Manager has assigned you a task of verification of inventory in the warehouse.

Required:

- (i) Identify **FOUR** audit objectives that you would seek to achieve in verification of the inventory. (4 marks)
 - (ii) Suggest **SIX** challenges you are likely to encounter in verification of the inventory. (6 marks)
- (c) During an audit assignment in a computerised environment, Ann Muhithe suggested the use of dummy testing instead of live data testing.

Required:

Summarise **FOUR** disadvantages of adopting dummy testing. (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) (i) Differentiate between “current audit file” and “permanent audit file”. (2 marks)
- (ii) List **SIX** contents of a permanent audit file. (6 marks)

- (b) You are at your initial stages of your auditing career. The Audit Manager has presented to you a draft audit report for familiarisation. You realise the usage of the terms “True and fair view” being repeatedly mentioned under the opinion section of the audit report.

Required:

Explain **FOUR** circumstances under which the auditor would indicate that the financial statements present a true and fair view of the financial performance and position of the company. (4 marks)

- (c) ISA 210: Agreeing the terms of engagements provides guidance on the content of engagement letters and deals with the auditor’s responsibilities in agreeing with the terms of the audit engagement with management.

Required:

(i) Highlight **FOUR** purposes of an engagement letter. (4 marks)

(ii) Enumerate **FOUR** matters that ought to be included in the engagement letter. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) State **FIVE** disadvantages of an audit programme. (5 marks)

(b) Name **FIVE** precautionary measures that could help to overcome the limitations of an audit programme. (5 marks)

(c) In the context of an audit, explain **FIVE** differences between an error and a fraud. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) A system of controls does not provide absolute assurance that the control objectives of an organisation will be met. Instead, there are several inherent limitations in any system that reduce the level of assurance.

Required:

Explain **FOUR** inherent limitations of Internal Control. (8 marks)

(b) Analyse **SIX** duties of an Auditor. (12 marks)

(Total: 20 marks)

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ATD LEVEL III

AUDITING

TUESDAY: 31 August 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) (i) Define the term “interim audit”. (2 marks)
- (ii) Evaluate four benefits of interim auditing. (8 marks)
- (iii) Itemise four audit assignments normally carried out at the final audit that could be carried out at the interim stage. (4 marks)
- (b) Highlight six ways in which the independence of an auditor might be safeguarded. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) (i) Differentiate between “inherent risk” and “control risk”. (4 marks)
- (ii) Identify four inherent risks accruing to an organisation as a result of using computerised information systems. (4 marks)
- (b) Explain three factors that an auditor should consider when deciding to use computer aided techniques (CAATs) in an audit. (6 marks)
- (c) Highlight six factors that an auditor should consider in using analytical procedures as part of substantive procedures when planning an audit. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Distinguish between “a walkthrough test” and “a compliance test”. (4 marks)
- (b) (i) Explain three techniques of documentation used by an auditor in the preparation of audit working papers. (6 marks)
- (ii) Highlight four factors which influence an auditor when undertaking audit documentation. (4 marks)
- (iii) Examine three reasons why the safe custody of audit working papers is of paramount importance to the auditor. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) The internal control system of a firm encompasses all the policies and procedures adopted by the management of that firm to enable achievement of overall corporate objectives.

Required:

- (i) Describe six internal control procedures for a purchasing system of a large manufacturing entity. (6 marks)
- (ii) Explain six control objectives that an internal control system on sales aims to achieve. (6 marks)
- (b) Discuss four matters that should be included in an unqualified audit report. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Define the term “materiality” and indicate its importance in the context of auditing. (4 marks)

(b) During an audit, the external auditors might require written confirmation of some evidence which could be material and only be in possession of the client.

Explain four types of management representations which auditors could obtain from the client during the audit. (8 marks)

(c) External confirmations are procedures used by auditors to obtain externally independent and reliable audit evidence.

Citing four examples, evaluate four circumstances in which external confirmations might be carried out. (8 marks)

(Total: 20 marks)

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ATD LEVEL III

AUDITING

TUESDAY: 18 May 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) (i) Analyse six essential features of statutory audits. (6 marks)
- (ii) Examine four advantages of statutory audits to the management of a business enterprise. (8 marks)
- (b) In the context of the Companies Act, highlight three rights of an auditor. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) International Standard on Auditing (ISA) 300 on planning an audit of financial statements requires the auditor to establish the overall audit strategy for the engagement and developing of an audit plan.

Required:

- (i) Highlight six contents of an audit planning memorandum. (6 marks)
- (ii) Outline four challenges encountered in developing and implementing audit plans. (4 marks)
- (iii) Suggest three measures to mitigate the challenges outlined in (a) (ii) above. (3 marks)
- (b) Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.

Required:

- (i) Summarise three types of audit risk. (3 marks)
- (ii) Examine four benefits that would accrue to a firm that undertakes risk classification. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) (i) Define the term "internal check". (2 marks)
- (ii) Discuss five matters that should be taken into consideration by a company when designing a good internal check system. (10 marks)
- (b) The control of cash is of prime importance in any business.

In light of the above statement, describe four internal controls that you would recommend to an entity over the management of its petty cash. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) In relation to computerised auditing, evaluate four drawbacks of using an audit software by an external auditor. (8 marks)
 - (b) In relation to the Auditor's report, describe three types of modified opinion. (6 marks)
 - (c) Explain three fundamental ethical principles and expectations that govern the behaviour of individuals in the conduct of internal auditing. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Citing two examples, explain the term "window dressing". (4 marks)
- (b) Analyse four elements of fraud perpetuated in an entity. (8 marks)
- (c) Auditors should develop and document an overall audit plan describing the expected scope and conduct of the audit.

With reference to the above statement, examine four matters in each case that would be included in the following sections of an audit plan:

- (i) Risk and materiality. (4 marks)
 - (ii) Knowledge of the entity's business. (4 marks)
- (Total: 20 marks)**
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ATD LEVEL III

AUDITING

TUESDAY: 24 November 2020.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) "Any internal control system can only provide the directors of an entity with a reasonable assurance that their objectives are achieved, because of the inherent limitations".

Required:

With reference to the above statement:

- (i) Examine four objectives of setting up an internal control system in an entity. (4 marks)
 - (ii) Analyse four inherent limitations of an internal control system. (4 marks)
- (b) In relation to the audit of computer based systems:
- (i) Explain the term "electronic data interchange (EDI) system". (2 marks)
 - (ii) Propose three challenges an EDI system may pose to an auditor. (6 marks)
- (c) In the context of the auditor's report, examine four circumstances that give rise to disagreement(s). (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) XYZ Accountants have been your external auditors for the past two years. In preparation of the current financial year audit, they have provided for both interim and final audit in their engagement letter.

Required:

Analyse six main audit procedures to be undertaken during:

- (i) Interim audit. (6 marks)
 - (ii) Final audit. (6 marks)
- (b) Discuss three advantages and three disadvantages of outsourcing the internal audit function. (6 marks)
- (c) Define the term "expectation gap" as used in auditing. (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In the context of errors and fraud:

- (i) Explain the term "teeming and lading". (2 marks)
- (ii) Highlight five techniques which could be used by an organisation to minimise occurrence of errors. (5 marks)

- (b) Differentiate between the following terms as used in auditing:
- (i) "Vouching" and "Verification". (4 marks)
 - (ii) "Representation letter" and "engagement letter". (4 marks)
- (c) List five statutory books which would be of interest to the auditor. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Analyse three types of modified audit opinions. (6 marks)
- (b) The financial year of Bits Computers Ltd. ends on 30 April. The proprietor who is not a competent accountant has prepared a bank reconciliation as at 30 April 2020. To determine its accuracy, your assistant should review the bank reconciliation.
- Required:**
Describe the audit procedures to be followed by the assistant in verifying the bank reconciliation in sufficient detail. (10 marks)
- (c) (i) Distinguish between "auditing around the computer" and "auditing through the computer". (2 marks)
- (ii) Explain two circumstances when it would be inappropriate for the auditor to rely on auditing around the computer. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Discuss five reasons why it is necessary for the auditors to observe the professional ethics when carrying out the audit work for their clients. (10 marks)
- (b) Examine five ways the auditors obtain knowledge about the clients business to help them in planning for audit. (5 marks)
- (c) Summarise five key issues the auditor might consider when evaluating the reliability of audit evidence gathered in the course of audit. (5 marks)
- (Total: 20 marks)**



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ATD LEVEL III

AUDITING

WEDNESDAY: 27 November 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Analyse six assignments that the internal audit department of a client entity could carry out. (6 marks)
 - (b) Describe the auditor's responsibilities in relation to the prevention and detection of fraud and errors. (6 marks)
 - (c) Examine four ways in which the internal audit function of an entity might help to improve the risk management efforts of an entity. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Examine five factors to consider when designing and performing substantive analytical procedures. (10 marks)
 - (b) Outline six items that should be included in an audit engagement letter. (6 marks)
 - (c) Highlight four benefits of an audit committee. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) In the context of planning and conducting an audit, draw three distinctions in each case between planning for the audit of a new client from planning the audit for an already existing client. (12 marks)
 - (b) Summarise four factors that an auditor should put into consideration when developing an overall audit plan. (4 marks)
 - (c) Describe four limitations of using a standardised audit programme. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Rafiki Enterprises Ltd. intends to implement a computerised accounting system to enhance efficiency in their operations.

Required:

Advise the management of the company on the drawbacks associated with a computerised accounting system. (8 marks)

- (b) Describe six circumstances when the auditor could issue an unqualified report. (12 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Define the following terminologies in relation to internal control system:

- (i) Control environment. (2 marks)
- (ii) Control objectives. (2 marks)
- (iii) Control procedures. (2 marks)

- (b) Trace Manufacturing Ltd. has been experiencing loss of inventory in their control warehouse.

Required:

- (i) Examine segregation of duties as a control procedure. (2 marks)
- (ii) Suggest six internal controls that the management should put in place to prevent loss of inventory. (12 marks)

(Total: 20 marks)

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ATD LEVEL III
AUDITING

TUESDAY: 21 May 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) The audit process must be fully documented. This documentation is in the form of audit working papers.

Required:

Describe five objectives of documenting the audit process. (10 marks)

- (b) It is important for the management of any entity to design and implement a system of accounting and internal controls.

With reference to the above statement, analyse five aspects of a good internal control system. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Tumaini Medical Services is the latest client in your expansion plan for the year. The senior partner has requested you to prepare an audit plan in preparation for conducting an audit on the books of accounts for Tumaini Medical Services.

Required:

Analyse eight procedures you would undertake in preparation of the audit plan. (8 marks)

- (b) Brian Macho has recently joined your firm. Due to his long experience in the auditing field, he dismisses the need for audit planning in conducting an audit.

Required:

Explain how audit planning assists in the conduct of an audit. (6 marks)

- (c) Akinyi and Achieng operate a partnership business branded Akichi Enterprises. The mainstream business is the sale of school uniforms where they share profits equally at the end of the financial year. The business has never been audited.

Required:

Discuss six benefits that would accrue to the enterprise upon external auditing of the financial statements. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Examine four areas where surprise checks could significantly improve the effectiveness of an audit. (4 marks)

- (b) Describe five audit procedures to be carried out while vouching advertisement expenses. (10 marks)

- (c) Explain three differences between internal audit and external audit. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain four advantages of computer-assisted auditing techniques (CAAT) to an auditor. (8 marks)

- (b) As with any other assurance engagement, auditors must obtain sufficient evidence before they can form an opinion on the adequacy and effectiveness of an entity's risk management system.

Required:

Discuss six audit procedures an auditor might carry out when assessing the adequacy and effectiveness of an entity's risk management system. (12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Itemise four principal matters which the auditor considers in forming an opinion on the financial statements. (4 marks)
- (b) (i) Explain the term "limitation of scope of the audit". (2 marks)
- (ii) Highlight four circumstances that could lead to the auditor citing a limitation of scope of the audit. (4 marks)
- (c) Summarise four matters that should be included in an unqualified report by the auditor. (4 marks)
- (d) Describe three fundamental ethical principles in performance of an audit assignment. (6 marks)

(Total: 20 marks)

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ATD LEVEL III

AUDITING

TUESDAY: 27 November 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Explain four factors that the board of directors of a company should consider when assessing the need for internal audit. (8 marks)
 - (b) State four non-audit services provided to audit clients. (4 marks)
 - (c) Discuss four procedures for obtaining audit evidence. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) In documenting an internal control system in an organisation, flowcharts could be deployed.
 - (i) In relation to the above statement, define the term “flowchart”. (1 mark)
 - (ii) Argue four cases for and three cases against use of flowcharts in documenting a client’s internal control system. (7 marks)
 - (b) In relation to computerised auditing, differentiate between “parallel simulation” and “program-code analysis”. (4 marks)
 - (c) Distinguish between “error” and “fraud” in auditing. (4 marks)
 - (d) Itemise four conditions that should be met in order to hold the auditor legally liable for negligence in his work. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain four advantages of automated working papers. (4 marks)
 - (b) As an audit assistant engaged in the audit of Zed Ltd., you are considering the use of debtors circularisation to obtain evidence on the company’s trade debtors balances.

Required:

 - (i) Summarise four objectives for carrying out debtors circularisation. (4 marks)
 - (ii) Examine three possible reasons why the client’s customer might disagree with balances stated by the company. (6 marks)
 - (iii) Discuss three alternative procedures you would carry out under circumstances where you are unable to get confirmations from individual debtors. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Audit risk is the risk that the auditor will reach an invalid opinion or conclusion from his audit work.

With reference to the above statement, examine four benefits of audit risk assessment.

(8 marks)

- (b) The auditor's report is the end product of any audit assignment.

With reference to the above statement, discuss six elements of the auditor's report.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Inherent risk has been defined as the susceptibility of an assertion to a misstatement that could be material individually or when aggregated with other misstatements assuming that there were no related internal controls.

To assess inherent risk, the auditors use their experience of the entity from previous audits together with professional judgement to evaluate numerous factors.

With reference to the above statement, identify:

- (i) Three such factors at the financial statements level.

(6 marks)

- (ii) Three such factors at the account balance and class of transactions level.

(6 marks)

- (b) Detailed audit work on inventories is imperative in an audit. However, there are other analytical review procedures that are equally important in the audit of inventories.

Required:

Highlight four such analytical review procedures.

(8 marks)

(Total: 20 marks)

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ATD LEVEL III

AUDITING

TUESDAY: 22 May 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Describe five general responsibilities of the engagement team involved in conducting the audit of a client company. (10 marks)
- (b) Explain five factors that should be taken into consideration by an auditor when setting the sample size for tests of control. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) The auditor must prepare an audit plan that involves the timing of the work to be done.
- With reference to the above statement, highlight five factors that determine the timing of a particular audit. (5 marks)
- (b) Summarise seven matters that an auditor is required to include in his audit report by the Company's Act. (7 marks)
- (c) An auditor must be tactful and honest and should not certify what he does not believe to be true.
- Required:**
- Describe three situations where the above principle is applied when auditing a client. (3 marks)
- (d) Highlight five duties of an auditor with regard to verification of the disposal of a fixed asset reflected in the books of a client. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Summarise six benefits that could accrue to an audit firm as a result of automating their audit procedures. (6 marks)
- (b) Propose five ways an entity could prevent or minimise accounting errors. (5 marks)
- (c) Discuss three components of audit risk. (9 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Argue three cases for and three cases against outsourcing the internal audit function. (6 marks)
- (b) Baraka Enterprises manufactures a fast moving product branded 'EXEL'. Due to the high volume of inventory and customers, the business maintains a continuous inventory checking system.
- Required:**
- (i) Highlight four advantages of using a continuous inventory checking system. (4 marks)
- (ii) Describe five audit procedures to be performed by the external auditor to confirm the accuracy of the continuous inventory checking system. (5 marks)

- (c) Juhudi Hardware Ltd. sells construction materials to its clients both on cash and credit basis. As the external auditor during an interim audit in the month of April 2018, you are assigned to review the company's bank reconciliation for the month of March 2018.

Required:

Outline five audit procedures you would deploy to verify bank reconciliation.

(5 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain four factors to be considered when assessing whether to place reliance on internal audit work. (8 marks)

- (b) Your audit firm has been appointed the external auditors for XYZ Ltd. The senior partner is in the process of compiling a team of auditors to gather audit evidence from your new client.

Required:

Advise on six methods of gathering audit evidence that the audit team could deploy during the exercise. (12 marks)

(Total: 20 marks)

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ATD LEVEL III

AUDITING

TUESDAY: 28 November 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) In relation to prevention, detection and reporting of fraud and errors, discuss four differences between the responsibilities of internal auditors and external auditors. (8 marks)
- (b) Describe six ways in which an audit plan could assist in the conduct of an audit. (12 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) International Standards of Auditing (ISA) 500 on audit evidence, requires that the auditor should obtain relevant and reliable audit evidence sufficient to enable him draw reasonable conclusions thereon.

Required:

Discuss four factors that could influence the judgement of the auditor with regard to sufficiency of audit evidence.

(8 marks)

- (b) Evaluate four factors that would influence the auditor to accept third party certificates as audit evidence. (8 marks)
- (c) Highlight four factors that influence the reliability of audit evidence. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Highlight six circumstances that would result to an increase in inherent risk of a firm. (6 marks)
- (b) When planning an audit for computerised accounting systems, the auditor should consider an appropriate combination of manual techniques and Computer Aided Auditing Techniques (CAATs).

With reference to the above statement, propose six factors to consider when using CAATs in an audit assignment.

(6 marks)

- (c) (i) Explain the term "misappropriation of assets". (2 marks)
- (ii) Describe three ways in which employees could be involved in misappropriation of the organisation's assets. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) You are the internal auditor of XYZ Ltd., a small and medium sized manufacturing company.

Required:

Examine six internal control measures you would recommend over the company's invoicing and credit notes system.

(12 marks)

- (b) In relation to auditor's report, explain the following:

- (i) True and fair view. (2 marks)
- (ii) Except for opinion. (2 marks)
- (iii) Subject to opinion. (2 marks)
- (iv) Opinion paragraph. (2 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) "Audit work on the records and financial statements relating to the financial year of an organisation are carried out at various times during and after the end of the financial year".

With reference to the above statement, describe the work carried out by an auditor during:

- (i) Interim audit. (8 marks)
- (ii) Final audit. (8 marks)

- (b) Summarise two steps that an auditor should take where ethical conflicts arise in the course of an audit assignment. (4 marks)
- (Total: 20 marks)**
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ATD LEVEL III

AUDITING

TUESDAY: 23 May 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Discuss six basic principles of auditing that govern the auditor's professional responsibilities in the course of audit work. (12 marks)

- (b) Juhudi Sacco has raised claims that their external auditor is liable for negligence that has led the Sacco to invest in loss making ventures.

With reference to the above statement, explain four conditions that the Sacco must meet in order to hold the auditor duly liable for negligence. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain four responsibilities of an auditor in relation to the prevention and detection of fraud and errors. (4 marks)

- (b) International standard on auditing (ISA) 530 on audit sampling, provides guidance on methods for selecting audit samples for testing.

Required:

Examine five methods of selecting audit samples.

(10 marks)

- (c) Describe three audit procedures that could be carried out using computer-assisted audit techniques (CAATs).

(6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Distinguish between "audit risk" and "analytical risk". (4 marks)

- (b) Explain how both low and high risk assessment could influence the tests to be carried out by an auditor. (8 marks)

- (c) In the context of auditor's reports, outline circumstances in which the following issues could arise in the course of an audit engagement:

(i) Limitation on scope.

(4 marks)

(ii) Disagreement.

(4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Describe five objectives of audit working papers. (10 marks)

- (b) Analyse five requisites of a good internal control system.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Effective audit planning is essential to ensure that the audit work is conducted in accordance with International Standards on Auditing.

Required:

(i) Explain five purposes of the letter of engagement.

(5 marks)

(ii) Describe the principal contents of the letter of engagement.

(10 marks)

- (b) Outline the circumstances in which risk could arise in the audit work.

(5 marks)

(Total: 20 marks)

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ATD LEVEL III

AUDITING

TUESDAY: 22 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) An auditor of financial statements must be an accountant but an accountant is not necessarily an auditor.

With reference to the above statement, distinguish between "accounting" and "auditing". (10 marks)

- (b) Tumaini Ltd. is in the process of setting up an internal audit function.

Summarise ten benefits that would accrue to the company upon setting up the internal audit function. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Discuss five factors that would affect the sufficiency of audit evidence gathered by an auditor. (10 marks)

- (b) Audit working papers are the documents prepared or obtained by the auditors in connection with an audit.

In relation to audit working papers, outline five contents of:

- (i) Permanent audit file. (5 marks)

- (ii) Current audit file. (5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In the context of internal control, describe five elements of the internal control environment that might be relevant when obtaining an understanding of the control environment. (10 marks)

- (b) You have been assigned to undertake an audit on general controls relating to purchase of goods. Examine five control procedures you would verify in your assignment. (10 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Outline four factors that might affect the form and nature of audit planning. (4 marks)

- (b) One of the myths around use of audit interrogation software is that it is expensive. However, modern programs are certainly relatively cheap compared with employing people.

Therefore, use of such tools is becoming more prevalent.

Required:

Highlight eight uses of an audit software to an auditor. (8 marks)

- (c) In relation to auditor's report, discuss the following:

- (i) Unqualified opinion. (2 marks)

- (ii) Adverse opinion. (2 marks)

- (iii) Qualified opinion. (2 marks)

- (iv) Disclaimer of opinion. (2 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Distinguish between "errors" and "fraud". (4 marks)

- (b) Explain five fundamental ethical principles that auditors are required to follow. (10 marks)

- (c) A professional accountant should maintain confidentiality at all times.

With reference to the above statement, analyse three circumstances where professional accountants might be required to disclose confidential information or when such disclosure might be appropriate. (6 marks)

(Total: 20 marks)

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ATD LEVEL III

AUDITING

TUESDAY: 24 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Discuss five groups of users of audited financial statements. (10 marks)
 - (b) Explain five ways in which the independence of an auditor might be compromised. (10 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) Define the following terms:
 - (i) Detection risk. (2 marks)
 - (ii) Control risk. (2 marks)
 - (iii) Teeming and lading. (2 marks)
 - (iv) Analytical review. (2 marks)
 - (v) Substantive tests. (2 marks)
 - (b) Discuss five methods an auditor could use to gather audit evidence. (10 marks)
- (Total: 20 marks)

QUESTION THREE

- (a) Describe five general control procedures for cash and bank. (10 marks)
 - (b) Discuss five inherent limitations of an internal control system. (10 marks)
- (Total: 20 marks)

QUESTION FOUR

- (a) Highlight two benefits of audit planning. (2 marks)
 - (b) You have been appointed the lead auditor of ABC Ltd. As part of the audit, you are required to prepare an overall audit plan.
Required:
 - (i) Summarise ten areas you might consider in preparing the overall audit plan. (10 marks)
 - (ii) Explain four likely limitations of the audit plan. (8 marks)
- (Total: 20 marks)

QUESTION FIVE

- (a) List six advantages of a computerised accounting system. (6 marks)
 - (b) Highlight six reasons why an auditor might audit around the computer. (6 marks)
 - (c) Outline eight elements of an audit report. (8 marks)
- (Total: 20 marks)
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ATD LEVEL III

AUDITING

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Public sector auditing is a crucial component for the administration of the public sector in your country. Most governments have taken crucial steps to boost the effectiveness of the audit of public sector.

Required:

Discuss some of the problems facing the audit of the public sector in your country. (10 marks)

- (b) Discuss the goals of public sector audit and propose ways of enhancing the same in developing countries. (10 marks)
(Total: 20 marks)

QUESTION TWO

- (a) (i) Discuss the respective responsibilities of the auditors and management in detecting fraud committed in a company. (8 marks)

- (ii) Briefly describe three advantages and three disadvantages to a company for outsourcing its internal audit functions. (6 marks)

- (b) Analyse the factors affecting the evolution of the auditing process from traditional auditing to modern auditing. (6 marks)
(Total: 20 marks)

QUESTION THREE

- (a) ISA 300-Planning an Audit of Financial Statements, provides guidance to auditors. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning of an audit benefits the audit of financial statements in several ways.

Required:

- (i) Explain the importance of audit planning. (5 marks)

- (ii) Discuss the matters you would consider and the work you would carry out in planning the audit. (8 marks)

- (b) Explain the purpose of an engagement letter and list its contents. (7 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) (i) Explain four financial statement assertions relevant to classes of transaction and events for the year under audit. (4 marks)

- (ii) For each identified assertion above, describe the substantive procedures relevant to the audit of revenue. (4 marks)

- (b) Describe substantive procedures you would perform to obtain sufficient and appropriate audit evidence in relation to:

- (i) Suppliers statement reconciliation. (4 marks)

- (ii) Bank reconciliation. (4 marks)

- (iii) Accounts receivable. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain five components of an internal control system. (10 marks)
- (b) Outline five matters which are included in the "introductory paragraph" of an auditor's report. (5 marks)
- (c) In addition to performing the normal audit, it is customary for an audit firm to provide other services to its client especially when the client is a private company.

Required:

Explain the measures that an auditor should put in place to safeguard his independence when providing other services to his client. (5 marks)

(Total: 20 marks)

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ATD LEVEL III

PILOT PAPER

PRINCIPLES OF AUDITING

December 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) (i) Explain five ethical threats which might affect the independence of auditors. (10 marks)
- (ii) For each threat in (a) (i) above, suggest what the accountancy profession can do to ensure auditors remain independent in the course of the audit. (5 marks)
- (b) Describe five benefits that might accrue to an organisation by having their accounts subjected to an audit. (5 marks)

(Total: 20 marks)

QUESTION TWO

You are working in an audit firm as an assistant, your firm has been offered the appointment to audit an agri-business. The client has six agri-business centers and all these centers are using Quick Books accounting system.

Required:

- (a) Discuss five factors which might influence your decision on whether to accept the appointment. (10 marks)
- (b) Describe four steps your firm should take before accepting the appointment. (4 marks)
- (c) State three rights and three duties of an auditor. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Define the term “internal control system”. (2 marks)
- (b) ISA 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment” requires auditors to obtain an understanding of information systems and control activities relevant to the audit. Control activities are the policies and procedures which help ensure that management directives are carried out.

Required:

- (i) Describe four characteristics of a good information system as a component of internal control system. (8 marks)
- (ii) Describe four different types of control activities and for each type, provide an example of a control a company may implement. (8 marks)
- (iii) List two components of business risk. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Distinguish between “materiality” and “performance materiality”. (4 marks)
- (b) With reference to ISA 700 “Forming an Opinion and Reporting on Financial Statements”, explain the information contained in the paragraph headed “auditor’s responsibility for financial statement”. (6 marks)
- (c) List six elements of the auditor’s report. (6 marks)
- (d) During the course of the audit, you discover that a company had valued their closing stock using LIFO and the amounts involved are considered to be material.

Required:

Explain the type of opinion you could express on this company’s financial statements. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Describe the steps that an auditor should perform in undertaking a positive receivables circularisation for a company. (4 marks)
- (b) Describe substantive procedures, other than a receivable circularisation, the auditor could perform to verify each of the following assertions in relation to account receivables:
- (i) Accuracy, valuation and allocation. (3 marks)
 - (ii) Completeness. (3 marks)
 - (iii) Rights and obligations. (3 marks)
- (c) Describe the substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in respect of year end accrual for income tax payable by a limited liability company. (7 marks)
- (Total: 20 marks)**
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ATD LEVEL III

PRINCIPLES OF AUDITING

TUESDAY: 2 August 2022. Afternoon paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Explain three factors that have contributed to the growth of internal audit function in modern organisations. (6 marks)
- (b) Mazao Enterprises Ltd. manufactures and sells horticultural pesticides. The management has requested your firm to carry out an assessment of its internal control systems.

Required:

Describe five factors you would consider when determining the adequacy of the internal control system of the company. (10 marks)

- (c) During an audit planning exercise, you have been assigned a role of an engagement partner.

Required:

In reviewing of the audit work performed by the audit team, propose four matters you would focus on. (4 marks)
(Total: 20 marks)

QUESTION TWO

- (a) Describe the five matters that need to be disclosed in the auditor's report as per the requirements of the Company's Act. (5 marks)
- (b) Highlight six factors to consider when assessing the reliability of internal control system in a computerised information system. (6 marks)
- (c) Sweetpools Ltd. is in the process of automating its internal audit function. The company intends to install a Generalised Audit Software (GAS) from a local software firm.

Required:

Identify four functionalities that would be supported by the Generalised Audit Software (GAS) in the internal audit function of the company. (4 marks)

- (d) During a directors meeting of ABC Ltd., it was resolved that the Internal Audit department adopts the Risk Audit Model in subsequent audit assignments.

Required:

- (i) Explain the term "Risk Audit Model" as used in internal auditing. (1 mark)
- (ii) Highlight four advantages of adopting a Risk Audit Model in internal auditing. (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In relation to auditor's report, describe three contents of each of the following components of the auditor's report:
- (i) Auditor's opinion. (3 marks)
 - (ii) Basis for opinion. (3 marks)
- (b) Explain the following terms in relation to Computer Assisted Audit Techniques (CAATs):
- (i) Embedded Audit Module. (2 marks)
 - (ii) Integrated Test Facility. (2 marks)
 - (iii) Program Code Analysis. (2 marks)
- (c) Propose two circumstances that may result to fraudulent financial reporting. (4 marks)
- (d) List four benefits that accrue to an organisation as a result of being audited. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) You have been appointed by your audit team leader to undertake a verification of property, plant and equipment as indicated in the clients statement of financial position.

Required:

Suggest four methods of assets valuation you would deploy to ascertain the accuracy of the value of the property, plant and equipment indicated in the statement of financial position. (8 marks)

- (b) (i) With reference to gathering audit evidence, distinguish between "positive confirmation" and "negative confirmation". (4 marks)
- (ii) Your firm has recently recruited a team of new auditors directly from tertiary institutions under Graduate Trainee program.

As part of induction, you are required to train them on reliability of audit evidence and audit procedures of gathering audit evidence.

Required:

Describe to the new team four audit procedures that can be deployed in gathering audit evidence.

(8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain three provisions of the Companies Act in relation to appointment of auditors. (6 marks)
- (b) Summarise three similarities between "internal audit" and "external audit". (6 marks)
- (c) In the course of an audit assignment, an auditor might come across certain errors and frauds.

With reference to the above statement:

- (i) Highlight four such types of errors. (4 marks)
- (ii) Enumerate four types of frauds. (4 marks)

(Total: 20 marks)

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ATD LEVEL III

PRINCIPLES OF AUDITING

TUESDAY: 5 April 2022. Afternoon paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Propose four types of audit softwares that the auditor could utilise in his work. (8 marks)
- (b)
 - (i) Explain the term “International Standards on Auditing (ISAs)”. (2 marks)
 - (ii) Describe six roles played by International Standards on Auditing (ISAs). (6 marks)
- (c) Distinguish between the following terms “Disclaimer of Opinion” and “An except for Opinion”. (4 marks)

QUESTION TWO

Tamasha Ltd. is your new client; dealing with entertainment business in the region. The company has an Internal Audit Department that was established two years ago. Your supervisor has requested you to undertake an evaluation on reliance on the work of the Internal Audit Department in undertaking your external audit exercise.

Required:

- (a) Describe six factors you would consider in undertaking the exercise. (12 marks)
 - (b) Explain four rights of an auditor. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a)
 - (i) Distinguish between “Inherent risk” and “Detection risk”. (4 marks)
 - (ii) Describe two limitations of a risk based audit. (4 marks)
- (b) List five items covered in the auditors note book. (5 marks)
- (c) Auditors are required to obtain sufficient knowledge about the clients’ entity in order to develop an effective plan for performance of audit.

Required:

Explain four ways in which the knowledge obtained by the auditors will be useful in proper execution of the audit for their clients. (4 marks)

- (d) As a newly employed Audit Associate with one of the big four audit firms, design three tests you would perform to obtain satisfaction of the cash and bank balances. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Evaluate four signs that indicate the existence of errors, frauds or irregularities in the business records and financial statements prepared by a client. (8 marks)
 - (b)
 - (i) Explain the term “professional independence” as used in audit of financial statements. (2 marks)
 - (ii) Citing three reasons, explain why it is important for an auditor to be seen to be independent. (6 marks)
 - (c) Describe four benefits that could accrue to auditors from performing automated audit procedures in the course of their audit. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Analyse four differences between “internal auditing” and “external auditing”. (8 marks)
- (b) Public Limited Companies are required to prepare and publish audited financial statements and auditors’ report at the end of every financial year.
- Summarise five users of the audited financial statements and auditor’s report including their areas of interest. (5 marks)
- (c) Describe seven matters contained in the audit planning memorandum. (7 marks)
- (Total: 20 marks)**

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ATD LEVEL III

PRINCIPLES OF AUDITING

THURSDAY: 16 December 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Describe five distinctions between Auditing and Accounting. (5 marks)
- (b) Brian and Antony operates a partnership business trading in manufacturing materials supply. The business has not been audited since its inception two years ago. Advise the partners on five benefits that would accrue to the business upon adoption of external auditing services. (5 marks)
- (c) Explain the following terms as used in auditing:
- (i) Concept of true and fair representation. (2 marks)
 - (ii) International Standards on Auditing. (2 marks)
 - (iii) The expectation gap. (2 marks)
- (d) Analyse four benefits of adequate planning in the audit of financial statements. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Jackson from JK and Sons Accountants is the current external auditor to ALG Regency Ltd; a company in real estate management. The company's management has asked him to step down from providing the external audit services to the company.

Required:

- (i) Propose four reasons that could have led the company's management to request Jackson to step down as the external auditor. (4 marks)
 - (ii) Highlight four rights that Jackson has at this moment when the company's management wants him to step down as the external auditor. (4 marks)
- (b) In relation to the code of ethics for auditors, discuss five fundamental principles and expectations that govern the behaviour of auditors. (10 marks)
- (c) Define the term "audit programme". (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) The auditor is required to keep detailed working papers which documents all aspects of the planning and completion of the audit work and also of the conclusions formed during the audit.

Required:

Evaluate six benefits of detailed audit working papers. (6 marks)

- (b) Wateja Warehouses Ltd. owns bonded warehouses near the Inland Containers Depot (ICD). The company leases space to importers.

Required:

As the newly appointed auditor, describe five audit procedures you would carry out to verify freehold land and buildings in the company's financial statements. (10 marks)

- (c) The head of the procurement department has invited you to participate in the annual stock take at the stores area. You have appointed your audit assistant to take up your role.

Required:

Prepare the audit procedures the audit assistant should undertake during the stock take.

(4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain four reasons why an auditor would consider availability of resources before commencement of an audit assignment. (4 marks)
- (b) The knowledge of a client's business may be gathered by an auditor prior to developing an audit plan.

Required:

Describe five sources of knowledge of a client's business.

(10 marks)

- (c) Examine six criteria used by the auditors in assessing the reliability of audit evidence. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Discuss four features that distinguishes computer based auditing environment from traditional auditing environment. (8 marks)
- (b) (i) Analyse the possible indicators of the existence of errors and irregularities in a client company. (6 marks)
- (ii) Discuss the auditors responsibility on the discovery of potential errors or irregularities in a client company. (6 marks)

(Total: 20 marks)

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