

KASNEB

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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