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. (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)

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)

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. (Total: 20 marks)

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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)