TOPIC 1: NATURE, PURPOSE AND CLASSIFICATIONS OF AUDITS
Revision questions

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

Required:

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

(i) Interim audit.

(ii) Final audit.

2. Highlight **SIX** inherent limitations of an audit of historical financial statements. (6 marks)
3. Discuss **FOUR** differences between "internal audits" and "external audits". (8 marks)
4. Highlight **FIVE** inherent limitations of an audit. (5 marks)
5. Private companies are not required by law to have their financial statements examined by an auditor. However, all public entities are required by law to have their financial statements audited.
   Required:
   Explain **SIX** reasons why an audit is considered necessary for limited liability companies and other public entities. (6 marks)
6. Describe **FOUR** types of audits that an internal auditor might conduct. (8 marks)
7. You are the partner responsible for the audit of Jengo Traders Ltd. During your visit in September 2023 to plan for the interim audit for the year, one of the directors expressed concern that an interim audit so close to year end is of little value to the company and the person benefiting is the audit firm by charging audit fees for such an "unnecessary activity".

   Required:
   a. Citing **FIVE** reasons, explain to the director the need for an interim audit and its benefit to both the company and the auditors. (10 marks)
   b. Explain **FIVE** ways on how the performance of an interim audit could affect the conduct of the final audit of Jengo Traders Ltd. (5 marks)
8. Highlight **THREE** benefits that may be derived from independently audited financial statements. (3 marks)
9. Your firm has been appointed as incoming auditors of Taratibu Motors Ltd. Part of the agreement is a proposal of undertaking of continuous audits on the company's financial statements.

   Required: Explain four disadvantages of conducting the proposed continuous audits. (4 marks)
10. What is the primary objective of an external financial statement audit?
11. State the three main parties involved in an audit and briefly describe their roles.
12. Define "true and fair view" in the context of an audit.
13. What is the difference between "auditing" and "accounting"?

14. Briefly explain what is meant by "reasonable assurance".
15. Define the following types of audits:
    a) Operational Audit
    b) Compliance Audit
    c) Financial Statement Audit
16. What is an internal audit?
17. Differentiate between external and internal audits based on:
    a) Objective
    b) Reporting Line
    c) Scope
18. Explain the key reasons why external audits are considered essential for companies, especially public listed companies.
19. Explain how the purpose of an internal audit differs from that of an external audit.
20. Discuss the factors that have led to the expansion of the audit role beyond traditional financial statement auditing.
21. The shareholders of Beta Ltd. are unhappy. They feel the audit fee is too high for what they perceive as "just checking the numbers." They argue that since the company has a strong internal audit department, the external audit is redundant.
    Required:
    a) Prepare a response to the shareholders explaining the distinct purpose and value of an external audit.
    b) Explain why the internal audit function does not replace the need for an external audit.
22. A government agency requires an audit to ensure that a construction company, Gamma Builders, has complied with all environmental regulations in its latest project.
    Required:
    a) Identify the type of audit being described.
    b) Who is the likely intended user of the audit report?
    c) What would be the primary focus of the auditor's work in this engagement?
23. The management of Delta Manufacturing is considering engaging an audit firm. They are unsure whether they need a financial statement audit, an operational audit of their production efficiency, or both.
    Required:
    a) Advise management on the key differences between these two types of audits.
    b) Explain how the outcome (the report) of each audit would benefit Delta Manufacturing.
24. Explain the professional objective of an audit (5 marks)
25. Enumerate the responsibilities of management and auditors in regard to the Historical financial statements (10 marks)