



CPA INTERMEDIATE LEVEL

PILOT PAPER

AUDITING AND ASSURANCE

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) Explain the meaning of the term “inherent risk”. (2 marks)
- (b) State with reasons five factors that would affect the initial assessment of inherent risk at the financial statement level. (10 marks)
- (c) State four general controls that should exist to prevent unauthorised access to a company’s computer system from the remote terminals. (8 marks)

(Total: 20 marks)

QUESTION TWO

Data analytics has been described as one of the modern ways of analysing data in various professional fields.

Required:

- (a) Explain how auditors can use data analytic techniques during the audit process. (10 marks)
- (b) Highlight the challenges that the auditors will encounter when using data analytics during the course of the audit. (10 marks)

(Total: 20 marks)

QUESTION THREE

You have been assigned to assist your audit senior in auditing a new client, Happy Land Limited. During the course of you reviewing and understanding the company’s internal control system, you discovered the following information:

1. The company has an internal audit department.
2. Bank reconciliation is undertaken by the internal audit department.
3. Purchase invoices are being approved for payment at branches and a list of approved invoices sent to head office for payment. The invoices, supporting documentation and suppliers statements are retained at the branches.
4. Excess cash is now invested by the finance director in short term securities.
5. A physical inventory has not been carried out for non-current assets and reconciled with the non-current assets register.
6. While visiting a production plant, it was noted that access to the inventory store room was unrestricted. It was discovered that the staff responsible for making test counts and agreeing to inventory on hand with the perpetual records, resigned and a replacement had not yet appointed.

Required:

- (a) Explain five control deficiencies in Happy Land Limited. (10 marks)
- (b) Recommend a control to address each of these deficiencies. (5marks)
- (c) Describe a test of control the auditor should perform to assess if each of these controls, if implemented, is operating effectively to reduce the identified deficiency. (5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) State the key financial statement assertions applicable to tangible non-current assets. (4 marks)
- (b) List the audit procedures which auditors should carry out when planning a company’s physical inventory count. (5 marks)

- (c) In relation to ISA 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”:

State the difference between:

- (i) An audit and an assurance engagement. (4 marks)
- (ii) An attestation engagement and a direct engagement. (2 marks)
- (d) Describe five elements of assurance engagement. (5 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) You are an auditor of Baraka Constructors Limited, a listed company which distributes materials to the real estate industry. You are finalising the audit for the year ended 31 March 2021. Your audit junior has identified the following matters and brought them to your attention:

1. The four directors have each borrowed Sh.100,000 from the company. These loans, which total Sh.400,000 have been included in the statement of financial position as at 31 March 2021 within the total accounts receivable under the heading “other accounts receivable – due within one year”. No separate disclosure about the loan has been made in the director’s report or the financial statements. The audit junior has investigated this further and concluded that, whilst the loans are illegal, they are genuine collectible current assets of the company.
2. The accounts of Baraka Constructors Limited did not contain a statement of changes in equity.
3. The physical inventory count sheets for two deposits of construction materials were lost before they were made available to you and you have not been able to confirm the inventory amount using alternative audit procedures. The amount of inventory for the two deposits is considered to be material.

Required:

Explain the audit opinion you will issue in each of the cases above.

(15 marks)

- (b) Explain the procedures that an auditor would carry out when performing an environment audit of a sugar manufacturing company. (5 marks)

(Total: 20 marks)

.....