



**CPA INTERMEDIATE LEVEL**

**AUDITING AND ASSURANCE**

**WEDNESDAY: 6 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) Describe **THREE** roles played by professional bodies in the regulation of auditors. (3 marks)
- (b) (i) In the context of International Standard on Auditing (ISA 530) – Audit Sampling, use relevant examples to distinguish between “sampling risk” and “non-sampling risk”, citing relevant examples. (4 marks)
- (ii) Highlight **THREE** strategies that an audit firm may use to control non-sampling risk. (3 marks)
- (c) Biggy Furnitures Ltd. is a high-end office furniture and equipment company. The company has grown tremendously in its customer base in recent years and apart from selling furniture and equipment, it now has a maintenance and leasing department. The company has an elaborate internal audit function to enhance the internal control system. Biggy Furnitures Ltd. has appointed you as the external auditor and requested you to cooperate with the company internal auditor to keep the total audit costs down. The company would like you to rely on the work of the internal auditor.

The internal auditor provides the following services to the company:

- An audit of the operations of internal controls in the company’s major functions (operations, customer support and information services).
- A review of the structure of internal controls in each major function every four years.
- An annual review of the effectiveness of measures put in place by the management to minimise the major risks facing the company.

In the year being audited, the company has had a major internal restructuring in its information services function. The internal auditor was closely involved in the preparation of the plan for restructuring and in the related post-implementation review.

**Required:**

- (i) Explain the extent to which you will seek to rely on the work of the internal auditor in each of the operational areas of Biggy Furnitures Ltd. (6 marks)
- (ii) Describe **FOUR** circumstances in which it would not be possible for an external auditor to rely on the work of the internal auditor. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) 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:**

- (i) 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)
- (ii) 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)
- (b) Describe **FIVE** threats to independence and objectivity as identified in the professional code of ethics for auditors. (5 marks)

**(Total: 20 marks)**

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### QUESTION THREE

- (a) During the audit of Lami Ltd, Daudi Muli, one of the audit partners in Muli and Associates held a meeting with the audit team after the risk assessment procedures had been completed. The meeting was held to discuss the susceptibility of the financial statements to material misstatements.

**Required:**

Discuss **FIVE** benefits of holding such a meeting.

(10 marks)

- (b) (i) Define the term “third-party certificate.” (2 marks)
- (ii) Describe **FOUR** factors that might influence an auditor’s acceptance of third-party certificate as audit evidence. (8 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) Distinguish between a “permanent audit file” and a “current audit file”. (4 marks)
- (b) In relation to an audit report, explain the following terms:
- (i) “Emphasis of matter” paragraph. (2 marks)
- (ii) “Other matter” paragraph. (2 marks)
- (c) Nguo Nzuri Company is a local manufacturer of office wear for both ladies and men. After the COVID-19 pandemic, the market of this line of clothes was adversely affected. Prior to the pandemic, the company had taken on a big loan from its bankers and invested in new manufacturing equipment and a fleet of delivery vans. The bank has written to the managing director of Nguo Nzuri Company threatening to petition for the liquidation of the company due to its difficulty in servicing the loan.

**Required:**

- (i) Describe **FOUR** operating conditions or events that cast doubt about the going concern ability of Nguo Nzuri Company. (4 marks)
- (ii) Advise the managing director on **FOUR** measures that Nguo Nzuri Company could take to mitigate the threat of liquidation. (8 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) The auditor is of the opinion that the audit evidence obtained is not sufficient to support the audit opinion after carrying out tests of control.

**Required:**

Recommend **THREE** actions that the auditor could take in response to the above problem.

(3 marks)

- (b) International Standard on Auditing (ISA) 560 – Subsequent Events, defines subsequent events as events occurring between the date of the financial statements and the date of the auditor’s report.

**Required:**

Describe **FOUR** events that could be termed as subsequent events.

(4 marks)

- (c) Analyse **THREE** strategies that an auditor could use to reduce exposure to professional liabilities. (3 marks)

- (d) Discuss **FIVE** components of an organisation’s internal control system. (10 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**

**AUDITING AND ASSURANCE**

**WEDNESDAY: 23 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) International Standard on Auditing (ISA) 300 Planning an Audit of Financial Statements, provides guidance to assist auditors in planning an audit.

**Required:**

In the context of International Standard on Auditing (ISA) 300, summarise **FIVE** benefits of audit planning. (5 marks)

- (b) In the recent past, many market regulators and organisations have adopted the risk-based audit model.

**Required:**

Explain **THREE** advantages and **TWO** disadvantages of the above model. (5 marks)

- (c) Your firm has been auditing Arial Bank which is listed in the securities exchange. As a policy, you are required to evaluate the independence of the firm and all the team members involved in the audit engagement. The audit team is assessing its independence in relation to Arial Bank's audit.

**Required:**

Discuss **FIVE** factors that might compromise independence of the team members involved in this audit. (10 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Brenda Tuli is the petty cashier for Bahari Ltd. On 20 July 2023, Brenda was short of cash for her travel for the week. She took out a small amount of cash from the petty cash at work to cover her fare. She had intended to return this amount at the end of the month, as soon as she was paid. Brenda had not obtained permission from her supervisor to pick the cash and she forgot to replace the cash when she received her salary.

**Required:**

- (i) Indicate the type of fraud that Brenda Tuli was involved in. (1 mark)

- (ii) Explain **FOUR** steps that Bahari Ltd. could take in order to improve controls over petty cash. (4 marks)

- (b) Kilimo Bora Ltd. is an agricultural company that mainly deals with the export of horticultural products. The company's Board of Directors would like the company to be listed in the Securities Exchange. Kilimo Bora Ltd. recently established an internal audit department to assist the board of directors in enhancing good corporate governance in the company. One of the resolutions was the creation of an audit committee of the board. The Managing Director understands the principles of good corporate governance with respect to internal audit. However, the other board members lack sufficient understanding of corporate governance and International Standards Auditing (ISA).

**Required:**

- (i) Discuss **FIVE** areas that the internal audit department could assist the board of directors of Kilimo Bora Ltd. in fulfilling their obligations under the principles of good corporate governance. (10 marks)

- (ii) Explain **FIVE** benefits that Kilimo Bora Ltd. would yield upon constituting an audit committee of the board. (5 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) Sheila Limo is the audit senior of K and R Associates. She is the one responsible for the audit of Kula Ltd, a manufacturing company. Sheila has called for a meeting with her junior auditors to discuss how they will go about carrying out tests of control and substantive tests on salaries and wages of Kula Ltd.

**Required:**

- (i) Distinguish between “tests of control” and “substantive tests”. (4 marks)
  - (ii) Summarise **FOUR** tests of control in relation to salaries and wages of Kula Ltd. (4 marks)
  - (iii) Propose **THREE** substantive tests that Sheila Limo might perform on salaries and wages of Kula Ltd. (6 marks)
- (b) Your new client Haraka Upesi Ltd. assembles and sells tuk tuks in the local market. The average selling price per unit in the year ended June 2023 was Sh.450,000 each. The company sold 500 units during the year thus generating an equivalent number of sales invoices. Sales invoices were completed manually with the director signing all invoices to confirm the sales value is correct. You are the Audit Manager of the audit exercise working together with an Audit Senior and Audit Junior; as part of the audit team.

During the planning meeting, suggestions were made about how to select a sample of sales invoices for testing. As the Audit Manager, you proposed to check all the sales invoices, the Audit Senior proposed selecting a sample using statistical sampling techniques whereas the Audit Junior proposed taking a random sample of invoices by reviewing the invoice file and manually choosing a few important invoices

**Required:**

Analysing each of the proposals by the team members, advise on the most suitable technique to use. (6 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) Auditors use assertions in assessing risks by considering potential misstatements that might occur and thus designing audit procedures that respond to each risk.

**Required:**

Evaluate **FIVE** financial statement assertions about classes of transactions and events for the period ended. (10 marks)

- (b) Jamila and Juma Associates have been appointed as the incoming auditors for Kibuyu Kirefu Ltd., a company that manufactures and sells various plastic items in East Africa. The client is the largest the firm has ever engaged in offering their audit services. Jamila and Juma Associates are required to conduct the interim audit and the final audit for the client’s financial internal control system.

**Required:**

Propose **FIVE** audit procedures the auditors could undertake during each of the following:

- (i) Interim audit (5 marks)
- (ii) Final audit (5 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) Kenneth Muli, an auditor at P and M Associates is in charge of auditing Mali Traders. Kenneth Muli is planning the audit with his team. The team is unsure on whether to use computer assisted audit techniques (CAATs) or manual techniques.

**Required:**

Advise Kenneth Muli on **FIVE** factors to consider when choosing between the two techniques in an audit engagement. (5 marks)

- (b) Enumerate **SEVEN** benefits of data analytics in audit. (7 marks)
- (c) In accordance with International Standard on Auditing (ISA)-700 Forming an Opinion and Reporting on Financial Statements, the auditor is required to evaluate whether the financial statements are prepared, in all material respects, with the applicable financial reporting framework.

**Required:**

Explain **EIGHT** matters that the auditor could evaluate before forming the audit opinion on the financial statements. (8 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**

**AUDITING AND ASSURANCE**

**WEDNESDAY: 26 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) Highlight **THREE** benefits that may be derived from independently audited financial statements. (3 marks)
- (b) International Standard on Auditing (ISA): 560 - Subsequent Event defines subsequent events as events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

**Required:**

Propose **FOUR** audit procedures that an auditor should perform as near as possible to the date of the Auditor's Report. (4 marks)

- (c) Elimu Yetu Trust is a charitable institution that sponsors needy students to seek tertiary education in Europe. The organisation raises finances from cash donations at annual fund-raising events, telephone and online appeals from well-wishers. Elimu Yetu Trust has employed a part-time bookkeeper since it is still at an early formative stage and the trustees cannot afford to hire a qualified accountant.

Following a recent review of the Finance Act, charitable institutions will be subjected to new audit and accounting regulations. Due to this, your firm has been appointed as first-time auditors of Elimu Yetu Trust. You have been informed by the trustees of Elimu Yetu Trust that the unaudited financial statements for the year have been prepared by a volunteer who is a recently retired qualified accountant.

**Required:**

- (i) Describe **TWO** examples of each of the following risks associated with the audit of Elimu Yetu:
- Inherent risks. (2 marks)
  - Control risks. (2 marks)
  - Detection risks. (2 marks)
- (ii) Propose **FOUR** audit tests that you could perform on income from fund raising events. (4 marks)
- (iii) Evaluate **THREE** substantive audit tests that you might undertake to verify the expenditure during the fund raising events. (3 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the following terms as used in computerised audit environment:

- (i) Cloud computing. (2 marks)
- (ii) Encryption. (2 marks)
- (iii) Embedded audit module. (2 marks)

- (b) During the annual audit evaluation exercise by the Internal Audit Committee of Limau Ltd., the Head of Internal Audit presented the internal audit plan for the upcoming financial year. He requested for additional members of staff to enhance the skill set in the audit team to match planned audit activities for the year. The committee, citing budgetary constraints of the company, resolved to adopt either co-sourcing or out-sourcing of the skills lacking in the current internal audit staff team.

**Required:**

- (i) Distinguish between “co-sourcing” and “out-sourcing” of the skills lacking in the current internal audit staff team. (4 marks)
- (ii) Outline **FOUR** matters that the Head of Internal Audit could ensure are included in the engagement letter with the outsourced service provider of the internal audit activity. (4 marks)
- (iii) Evaluate **SIX** areas that the Head of Internal Audit might review to ensure that the external service provider possesses the necessary knowledge, skills and competencies to undertake the task. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Contrast the responsibilities of the external auditors and internal auditors in detection of fraud. (4 marks)
- (b) Kezzia Karimi has recently been appointed as the head of internal audit function in one of the Government Entities. The entity has never had an internal audit function. In this regard, Kezzia has the responsibility of developing an audit charter for approval by the Audit Committee.

**Required:**

Advise Kezzia on four matters for inclusion to the audit charter to ensure independence of the internal audit function. (8 marks)

- (c) International Standard of Auditing (ISA) 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment, requires the auditor to perform risk assessment procedures which include obtaining an understanding of the entity and its environment, including its internal controls.

**Required:**

- (i) Citing a relevant example, explain the term “negative assurance”. (3 marks)
- (ii) Explain the purpose of undertaking risk assessment procedures. (2 marks)
- (iii) Outline **THREE** sources of audit evidence that the auditor can use as part of risk assessment procedures. (3 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) An efficient wage system is important for most companies however, there is no single wage system which suits all companies. Some companies have a completely manual system, others a partially computerised system while others have a system which is completely computerised. Broadly speaking, a company with a completely manual system will use a clock and a clockcard system to record hours, prepare the payroll manually and conduct a physical wage payout. A fully computerised system may include biometric time keeping, processing of the payroll by the computer and payment of the amount owed to the employee by electronic funds transfer.

**Required:**

In the context of the above information:

- (i) Explain the major advantage of biometric scanning technology over other methods of recording hours worked. (2 marks)
- (ii) Discuss whether the use of biometric scanning technology to record hours worked, might eliminate the risk of fictitious employees being used to perpetrate wage fraud. (5 marks)
- (iii) Evaluate **FOUR** characteristics of an organisation which could influence the management in deciding on a suitable wage system. (8 marks)

- (b) Joyce Jamila runs an audit firm that recently completed the audit of SofaSeti Ltd., a manufacturer of exclusive home furniture. The audit fee amounted to Sh. 4,800,000. Having recently purchased a new house, Joyce proposed the following to SofaSeti Ltd. as a mode of settlement:
1. Instead of invoicing SofaSeti Ltd. a fee of Sh. 4,800,000, she would invoice the company an amount of Sh.2,800,000 for the audit fees.
  2. SofaSeti Ltd. would then supply Joyce Jamila with free furniture with a cost value of Sh.2,000,000 for her new house.
  3. SofaSeti Ltd. would not raise a sale in the company's accounting records and would write off the amount of Sh.2,000,000 off as part of the allowance for obsolete inventory.

**Required:**

Discuss **FIVE** issues in terms of the code of professional conduct applicable in the situation above. (5 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) You are a senior auditor in the audit of Baisiko Ltd., a company which manufactures bicycles. The company has numerous suppliers due to the fact that its products are manufactured from a wide range of materials and components. During discussion with the audit team about further audit procedures to be adopted, one of the trainees raised the question of whether it would be appropriate to circularise creditors to confirm their balances.

Although your firm had not carried this procedure in prior years, you decide to perform a positive circularisation on creditors listed as at 31 December 2022.

**Required:**

Evaluate **FIVE** creditors that you could include in the sample of creditors to be positively circularised. (10 marks)

- (b) You have been auditing Fruitly Ltd., a large national grocery store chain for the first time. Towards the end of the audit, your audit manager demands that you seek a letter of representation from the management of the client company. Upon follow up with the client's management, you are informed that the management is unwilling to sign the letter of representation.

**Required:**

- (i) Examine the need for seeking a letter of representation from the client's management. (2 marks)

- (ii) Outline **SIX** matters that you expect the management of Fruitly Ltd. to include in the letter of representation. (6 marks)

- (iii) Highlight **TWO** reasons for the management to be unwilling to sign a letter of representation. (2 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**

**AUDITING AND ASSURANCE**

**WEDNESDAY: 7 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) Distinguish between a “financial statement audit” and a “fraud examination”. (4 marks)
- (b) Smart Elec Ltd., one of your new clients, deals in locally manufactured and imported electric appliances targeting middle level income customers. Your Audit Manager has assigned you the task of verification of inventory which includes attending a stock take at your client’s premises.

**Required:**

Discuss **SIX** possible challenges that you are likely to encounter in the verification of inventory. (6 marks)

- (c) In the context of the inherent limitations in both internal control and the audit process itself, explain **FIVE** reasons why even a properly performed audit may not detect errors and fraud. (10 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) You have been provided with the following independent scenarios:
1. H Ltd. is a fast-growing company that operates in the animal feeds industry. It is quoted on the Securities Exchange but its founder, Kazi Tele and his family still control about 60% of the company’s voting shares. Kazi Tele personally makes all the major decisions and the Board of Directors just “rubber stamps” them. There is a nomination committee of the Board but this notwithstanding, a majority of the Board members of H Ltd. are either members of Kazi Tele’s extended family or have some connection to him.
  2. Tech Up Ltd. is a private company engaged in the development and manufacture of computer accessories. The industry in which the company operates is very competitive and subject to rapid changes in technology. The company ranks third or fourth in the market in which it operates and its products are rated slightly behind the market leaders in terms of performance.

**Required:**

- (i) For each of the scenarios in (1) and (2) above, evaluate how the risk of material misstatement should be assessed. (6 marks)
- (ii) Explain what effect the evaluation in (i) above will have on the detection risk. (6 marks)
- (b) Describe **FOUR** characteristics of financial statement fraud. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) In recent years, there has been a substantial increase in cybercrime occasioned by the reliance placed on technology by business entities. As a result, the effect of cybercrime on organisations is becoming highly significant in relation to financial statement audits.

**Required:**

Citing **FIVE** factors, discuss the importance of cybersecurity in the context of ISA 315 (Identifying and Assessing the Risks of Material Misstatement). (10 marks)



- (b) Haki Yangu is an ordinary shareholder in Mizani Ltd. He has instituted a criminal liability case against the auditors of Mizani Ltd. as a result of his reliance on the information presented in the company's audited financial statements.

**Required:**

- (i) Highlight **FOUR** actions by an auditor that could make him criminally liable under the Companies Act in your jurisdiction. (4 marks)
- (ii) Describe **THREE** circumstances that Haki Yangu is required to prove against the auditors for a successful criminal liability case under the Companies Act in your jurisdiction. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain the "**THREE** Es" of a value for money audit. (6 marks)
- (b) ISA 230 (Audit Documentation), requires auditors to prepare audit documentation for an audit of financial statements on a timely basis.

**Required:**

Describe **FOUR** benefits of documenting audit work. (4 marks)

- (c) An internal audit function is an appraisal activity established or provided as a service to the entire entity.

**Required:**

With reference to the above statement, explain **FIVE** functions that could be performed by the internal audit department. (10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Your firm has been appointed as the new auditors for Jazamatt Ltd., a small-scale supermarket. The company has recently unearthed fraudulent activities perpetrated by employees leading to loss of credibility with its current and potential customers. The fraud led to loss of company revenue which was brought about by a weak internal control system (ICS). The company has requested your firm to support it to improve its operations in order to avoid another fraud in future.
- (i) Propose a five-step approach that you could adopt to identify deficiencies (ordinary and significant) including material weaknesses in the ICS of Jazamatt Ltd. (5 marks)
- (ii) Explain to the management of Jazamatt Ltd. **THREE** responsibilities that they bear regarding evaluating risks of fraud in the company. (3 marks)
- (iii) Highlight **THREE** types of revenue manipulations that the employees of Jazamatt Ltd. may have exploited in undertaking the fraud. (3 marks)
- (b) Mahindi Safi Millers operates a milling business that procures maize supplies from local farmers as a community empowerment program. The company also recruits permanent and casual labour from the community who are paid salaries and wages respectively. You have been requested to undertake a verification of salaries and wages paid in the month of November 2022.

**Required:**

Propose **NINE** procedures that you would review to verify the salaries and wages before proceeding to verify payments made on account of salaries and wages. (9 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**  
**AUDITING AND ASSURANCE**

**WEDNESDAY: 3 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) Describe five Auditor's responsibilities for the Audit of Financial Statements as provided by the International Standard on Auditing 700 (Revised): Forming an opinion and Reporting on Financial Statements. (10 marks)
- (b) Explain four items of information that the auditor should disclose in the opinion section of the auditor's report. (4 marks)
- (c) Your audit team is planning to adopt statistical sampling to analyse big data from a client operating in the banking sector.

**Required:**

Highlight six factors that the audit team should consider before adopting statistical sampling. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Describe four strategies that an auditor may deploy to reduce exposure to professional liabilities. (4 marks)
- (b) Auditors are frequently required to provide assurance for a broad range of non-audit engagements.

**Required:**

- (i) Summarise four elements of an assurance engagement. (4 marks)
- (ii) Distinguish between "reasonable assurance engagements" and "limited assurance engagements". (4 marks)
- (c) 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)

- (d) Kilimo Sacco has recently automated its loan processing and disbursement activities upon purchase of an Enterprise Resource Planning (ERP) system. You have been requested to review the processing controls of the system.

**Required:**

Suggest four processing controls that the system should possess upon full implementation. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Your client, ADL Ltd., deals in selling and distribution of office stationery. The company's Director mentions to you the possibility of the occurrence of errors and frauds within the company. The company also recently introduced an internal audit unit in its organisation structure to enhance the company's internal control framework.

**Required:**

- (i) Explain four ways in which the internal audit unit could assist the management in managing the risk of errors and frauds. (4 marks)
- (ii) Using relevant examples, describe three components of the Fraud Triangle that the management of ADL Ltd. should be aware of. (6 marks)
- (iii) Analyse six audit procedures that you would undertake in response to errors and fraud related to inventory quantities reported in the company's financial statements. (6 marks)
- (b) Analyse four factors that could result in an increase in the control risk within an organisation. (4 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- (a) Your firm is in the process of auditing a client dealing in actuarial services. Your audit team lacks sufficient expertise in the field of actuarial services. In this regard, the Audit Manager has recommended engaging a management expert as a source of audit evidence. You are also required to maintain the working papers for the exercise.

**Required:**

- (i) Analyse six factors that would affect the reliability of the information produced by the management expert. (6 marks)
- (ii) Evaluate four features of the audit working papers that you would be required to maintain. (4 marks)
- (b) International Standard on Auditing (ISA): “Going Concern”, deals with the auditor’s responsibilities in the audit of financial statements relating to going concern and the implications for the auditor’s report.

**Required:**

- (i) Explain six indicators that would cast doubt to an auditor about the going concern status of a company. (6 marks)
- (ii) Discuss for audit procedures that an auditor would carry out in order to obtain sufficient audit evidence to be able to form an opinion on the going concern status of a company. (4 marks)

**(Total: 20 marks)**

#### QUESTION FIVE

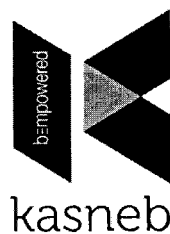
Your audit team is in the process of preparing the annual audit plan. You have been allocated the task of undertaking risk assessment. Mike Ogola, a newly recruited audit trainee, argues that there is no need for a risk assessment or even the whole audit planning process. He is convinced that the two exercises add absolutely no value to the output of the audit assignment.

**Required:**

- (a) Explain six justifications for undertaking audit planning. (6 marks)
- (b) Distinguish between “qualitative risk assessment techniques” and “quantitative risk assessment techniques”. (4 marks)
- (c) Describe five possible risk assessment challenges that you are likely to encounter as you undertake the above assignment. (5 marks)
- (d) Recommend five risk management responses that could be deployed to mitigate risk. (5 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**  
**AUDITING AND ASSURANCE**

**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) Your firm has been engaged in auditing small entities for the last five years. In a recent development, your firm has been appointed to conduct an audit on a large entity; which is the first assignment of such magnitude. You are required to undertake an interim audit and a final audit of the large entity.

**Required:**

- (i) Explain the objective of an external audit. (2 marks)
  - (ii) Highlight five audit procedures you could undertake during the interim audit of the large entity. (5 marks)
  - (iii) Describe five audit procedures you would undertake during the final audit of the large entity. (5 marks)
  - (iv) Present two drawbacks of conducting an interim audit. (2 marks)
- (b) Highlight three shortcomings of using standardised audit programs. (3 marks)
- (c) Evaluate three benefits of an audit committee in a not-for-profit organisation (NGO). (3 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Analyse three categories of financial statements assertions that may be used by the auditor to test the financial statements of a company. (9 marks)
- (b) International Standards on Auditing 500, "Audit Evidence", permits an auditor to place reliance on information produced by a management's expert in the course of audit work.

**Required:**

- Propose six factors that the auditor might consider before relying on the work of a management's expert. (6 marks)
- (c) Your organisation is in the process of computerising the internal audit function. The management has proposed installation of a Generalised Audit Software (GAS) to replace the manual procedures.

**Required:**

- Evaluate five functionalities that are supported by a Generalised Audit Software. (5 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) (i) You have been appointed to lead your engagement team in auditing a new client. During the planning of the audit, the team emphasised on the need to understand the internal control system maintained by the client.

**Required:**

Describe four components of the internal control system that would be of interest to your team. (8 marks)

- (ii) Identify two limitations of internal control systems. (2 marks)

- (b) Antony and Associates (CPA) have been the auditors of Bidii Logistics Company for the last two years. This company deals with shipping and movement of cargo within the East Africa region. The lead auditor in his review of the financial statements suspected fraudulent financial reporting overriding controls and immediately convened a meeting with his engagement team.

**Required:**

- (i) Explain the meaning of “fraudulent financial reporting”. (2 marks)
- (ii) Discuss six techniques that the management of Bidii Logistics Company might have deployed to achieve fraudulent financial reporting. (6 marks)
- (iii) Evaluate the importance of the meeting convened by the lead auditor with the engagement team. (2 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Jenga Ltd. operates from fifteen separate depots providing plant and machinery hire service throughout the country.

The company offers hire services of a wide variety of tools and equipment to:

1. Builders and corporate customers on credit.
2. Members of the public on advance payment terms, including payment by cash.

In addition to the revenue generated from the hire of plant and machinery, the company also generates income from the sale of damaged or aged machinery and the hire of accessories and safety equipment.

**Required:**

- (i) Explain the term “inherent risk”. (2 marks)
- (ii) Evaluate three factors that could suggest that there might be a high inherent risk applying to plant and machinery income as reported in the financial statement of Jenga Ltd. (9 marks)
- (b) With reference to ISA 700 (Forming an Opinion and Reporting on Financial Statements); distinguish between an “adverse opinion” and a “disclaimer of opinion”. (4 marks)
- (c) Highlight five threats to an external auditor’s independence. (5 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Your audit firm was recently appointed the auditor of Jisifu Ltd. The company has a subsidiary based in western part of the country and its auditors had retired the previous year.

**Required:**

Assess four factors that would influence you in determining whether or not to send a separate engagement letter to the subsidiary. (4 marks)

- (b) You are the managing partner in Odhiambo and Associates (Certified Public Accountants). Wasali Ltd. has recently engaged your firm to provide tax consultation services to the company.

**Required:**

Using four elements of an assurance engagement, explain whether the above engagement qualifies to be an assurance engagement. (4 marks)

- (c) The financial accountant of Afiah Ltd. has provided you with the following breakdown of movements on the company’s non-current assets for the year ended 31 December 2021:

	Land Sh.“000”	Equipment Sh.“000”	Total Sh.“000”
<b>Cost</b>			
Balance as at 1 January 2021	320,000	240,000	560,000
Additions	-	32,000	32,000
Revaluation	48,000	-	48,000
Disposals	-	(12,000)	(12,000)
Balance as at 31 December 2021	<u>368,000</u>	<u>260,000</u>	<u>628,000</u>
<b>Accumulated depreciation</b>			
Balance as at 1 January 2021	-	144,000	144,000
Charge for the year	-	54,400	54,400
Disposals	-	(10,000)	(10,000)
Balance as at 31 December 2021	-	<u>188,400</u>	<u>188,400</u>
Net book value as at 31 December 2021	<u>368,000</u>	<u>71,600</u>	<u>439,600</u>

**Additional information:**

1. The company does not depreciate its land and you, the company's auditor, agree that this is appropriate.
2. Depreciation on equipment is charged at the rate of 20% per annum with full year's depreciation charged in the year of acquisition and none in the year of disposal.
3. This is the company's first time revaluing the land. The revaluation was carried out by a reputable firm of auctioneers and valuers, known to you.
4. The company maintains a non-current asset register.

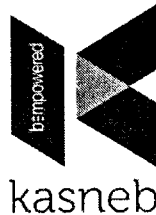
**Required:**

- (i) Describe four internal controls that could be present regarding the non-current asset register before you could place reliance on it as a source of audit evidence. (4 marks)
- (ii) Assess four audit work procedures that could be carried out on the depreciation charge and on the accumulated depreciation balance. (4 marks)
- (iii) Explain four tests that could be carried out to audit both the additions and the disposals of the equipment. (4 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**  
**AUDITING AND ASSURANCE**

**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) International Standard on Auditing (ISA) 500 "Audit Evidence" requires auditors to obtain sufficient, appropriate audit evidence.  
Discuss five matters that auditors should consider with regard to the reliability of audit evidence. (5 marks)
- (b) Examine four matters which an audit practice might consider when deciding whether to use computer audit software. (4 marks)
- (c) International Standards on Auditing (ISA) 230 "Audit Documentation" requires that there should be adequate documentation of the work done to support the opinion expressed on the financial statements.  
**Required:**  
Discuss four reasons why the auditor should maintain detailed audit working papers. (8 marks)
- (d) Describe three types of corruption fraud that may be carried out in an entity. (3 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) International Standards on Auditing (ISA) 210 "Agreeing the terms of Audit engagements" requires that the auditor and the entity should agree on the terms of engagement in an audit engagement letter or other suitable form of contract.  
**Required:**  
(i) Explain two objectives of an engagement letter. (4 marks)
- (ii) Highlight eight contents of an audit engagement letter. (8 marks)
- (b) Planning for a specific audit includes strategic and operational aspects. Distinguish between "strategic" and "operational" aspects of audit planning. (4 marks)
- (c) "The form and content of an auditor's report will depend on the nature of the audit, the intended users, and the applicable standards and requirements".  
In light of the above statement, explain how the auditor's report may differ between "attestation engagements" and "direct reporting engagements". (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) According to International Standard on Auditing (ISA) 220, "Quality Control for an Audit of Financial Statements" the auditor should consider certain factors before accepting a new engagement or continuing an existing engagement.  
With reference to the above standard, discuss three such factors. (6 marks)
- (b) The auditor should consider the risk that the going concern assumption may no longer be appropriate.  
With reference to the above statement, identify four financial indicators that shows that the going concern assumption may not be appropriate in the preparation of a company's financial statements. (8 marks)
- (c) You are the auditor of Sharoh Ltd. which was incorporated in December 2018. The company's main business is in real estate. Over the last two years, the company has recorded increased profits as a result of the Property Market boom in the country. Due to the increased number of transactions, you as the auditor feel that it is prudent to have an interim audit. The management are however hesitant about your proposal.



**Required:**

Explain three reasons to the management of Sharoh Ltd. why an interim audit is necessary and how it could be of benefit to the client. (6 marks)

**QUESTION FOUR**

Relax Hotels and Cottages Ltd. is your new client operating in the hospitality industry.

The company management has indicated to you in the opening meeting that the internal control environment is critical to their business profitability especially during the recent economic downturn. You are required to understand the company's internal control environment before commencing the audit task.

**Required:**

In relation to International Standards on Auditing (ISA) 315 "Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment";

- (a) Explain the term "control environment". (2 marks)
  - (b) Discuss six elements of control environment that would be relevant in understanding Relax Hotels and Cottages Ltd. (12 marks)
  - (c) Examine six factors that would lead to change in the inherent risk of Relax Hotels and Cottages Ltd. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) The International Standards on Auditing 700 (Revised) - Forming an opinion and Reporting on financial statements deals with the auditors responsibility to form an opinion on the financial statements.

**Required:**

- (i) Describe five auditor's responsibilities for the audit of the financial statements section of the auditors report. (5 marks)
    - (ii) Itemise three additional auditors responsibilities for audit of financial statements when auditing accounts for a group of companies. (3 marks)
    - (iii) Summarise four matters that an auditor should include in the "Basis of opinion" section of the auditors report. (4 marks)
  - (b) E-commerce is the buying and selling of goods online. Propose five elements of inherent risks associated with operating an E-Commerce platform. (5 marks)
  - (c) Examine three mandates of internal auditors of a government entity as per the Public Financial Management Act. Regulations (2015). (3 marks)
- (Total: 20 marks)**
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**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:

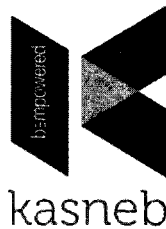
Explain the audit opinion you will issue in each of the cases above.

(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)**

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**CPA PART II SECTION 4**  
**AUDITING AND ASSURANCE**

**THURSDAY: 2 September 2021.**

**Time Allowed: 3 hours.**

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

**QUESTION ONE**

- (a) Controls in an entity's information technology system may consist of a combination of automated controls and manual controls.

**Required:**

- (i) Evaluate eight risks that automated controls pose to an entity's internal control system. (8 marks)
- (ii) Analyse four circumstances in which manual controls may be more suitable for use in an entity. (4 marks)
- (b) Examine six factors that might be taken into consideration by an audit engagement team when determining the extent of tests of control to be performed. (6 marks)
- (c) Highlight two features of a non-statutory audit. (2 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Distinguish between "reasonable assurance engagement" and "limited assurance engagement". (4 marks)
- (b) International Standard on Auditing (ISA) 705, "Modifications to the Opinion in the Independent Auditor's Report", sets out the different types of modified opinions.

**Required:**

With reference to the above Standard, discuss three ways in which an auditor's opinion may be modified. (6 marks)

- (c) (i) Define the term "going concern" as per International Standard on Auditing (ISA) 570, "Going Concern". (2 marks)
- (ii) Propose four responsibilities of auditors with respect to going concern. (4 marks)
- (d) Describe four ways an internal audit function of a government entity would achieve independence in conduct of its functions in relation to the Internal Audit Guidelines for National Government Entities in your country. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) International Standard on Auditing (ISA) 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment"; requires the auditor to perform risk assessment procedures which include obtaining an understanding of the entity and its environment, including its internal controls.

**Required:**

- (i) Explain the purpose of risk assessment procedures. (2 marks)
- (ii) Propose four sources of audit evidence the auditor might use as part of risk assessment procedures. (4 marks)
- (b) Your firm has diverse clientele from various sectors. You have been allocated the task of planning for an audit of Tamuko Creameries Ltd., a company that manufactures a variety of milk products. This will be the second year your firm is providing audit services to Tamuko Creameries Ltd.

The following information is available:

1. The company's finance manager has informed you that the company has recorded fast growth. The company's financial accounting systems have been changing rapidly and appropriate control systems are proving challenging to maintain. Additional services in terms of review and implementation of control systems have been requested.
2. The company has recently established an internal audit unit and the finance manager wants you to ensure that external audit work is limited by using this unit.
3. The company plans to produce and market a new brand of yoghurt specifically for export to neighbouring countries. This has not been approved by the Export Licencing Agency.
4. The granting of the export licence is dependent on the financial stability of the company.
5. The finance manager has indicated that the company will be required to provide a report to the Export Licencing Agency on cash flow forecasts for the upcoming financial year to support licence application.

**Required:**

As part of your risk assessment procedures for the audit of Tamuko Creameries Ltd., evaluate five items to be considered when providing services to this client. (10 marks)

- (c) Compare the responsibilities of the internal auditor and those of the external auditor in respect to detection of fraud. (4 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

You are the training officer in Makau and Associates. You have been appointed to give an induction course to a group of new trainee audit staff regarding fraud and error.

A number of the trainees have indicated that they are aware that the issue of fraud and error is something they will likely face in the completion of their assignments, but are unsure as to what their responsibilities and those of the directors are in this area.

You have decided to provide them with explanatory notes with regard to audit matters pertaining to fraud and error.

**Required:**

Prepare notes for the trainee audit staff undertaking your induction course which:

- (a) Differentiate the responsibilities of the auditor and those of the directors with respect to fraud. (4 marks)
- (b) Discuss five steps which the auditor might take when fraud is suspected. (10 marks)
- (c) Evaluate three limitations of audit procedures in detecting fraud and error. (6 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

The key element of the external audit and internal audit is the independence of the individual or the firm holding the appointment or in the case of internal audit, the status of the internal audit department in the organisation.

However, if the auditor is to carry out his function independently, he must be granted access to all the information he requires.

**Required:**

- (a) Explain two reasons why the internal and external auditors need to be granted access to all information required. (4 marks)
- (b) Discuss whether the right of access granted to internal and external auditors creates any obligations for the auditor. (2 marks)
- (c) Evaluate seven circumstances which may give rise to auditor's legal liability. (14 marks)

**(Total: 20 marks)**

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**CPA PART II SECTION 4**  
**AUDITING AND ASSURANCE**

**THURSDAY: 20 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) Wakulima Supermarket Ltd. has appointed your firm as their external auditors for the current financial year. One of the company's directors feels that there is no need to undertake an interim audit during the year. He argues that an interim audit is only a way of increasing your firm's audit fees and adds no value to the company.

**Required:**

- (i) Advise the director on the need to undertake an interim audit. (8 marks)
- (ii) Explain four audit assignments to be undertaken during the interim audit. (4 marks)
- (b) Antony Wanga has joined your audit team as an intern. He has not been engaged in external auditing processes before. Summarise eight critical stages of an external audit to Antony. (8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) You have been invited by the accountancy professional body in your country as a guest speaker during their annual seminar. Your topic of presentation is "Professional judgement and professional scepticism in the conduct of external audits".

**Required:**

- (i) Distinguish between "professional judgement" and "professional scepticism". (4 marks)
- (ii) Analyse four decision areas whereby auditors should exercise professional judgement in the conduct of an audit. (8 marks)
- (b) Evaluate four methods of ascertaining a client's accounting and control system. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Discuss five factors which an auditor should consider when assessing the quality of audit evidence. (10 marks)
- (b) You are the audit manager of Bev and Associates. You are currently briefing your team on the approach to adopt in gathering evidence for the audit of inventory. During the briefing, you inform the team that the auditor is required to design audit procedures to obtain sufficient and appropriate evidence from the sample items. You also explain to the team that the auditor could rely on the work of internal auditors.

**Required:**

In accordance with International Standard on Auditing (ISA) 610, Using the Work of Internal Auditors, describe five factors Bev and Associates should consider when placing reliance on the work of internal auditors. (10 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) At the end of the audit process, an auditor prepares an audit report expressing his opinion on the financial statements. As an auditor, summarise four matters that you would include in the introductory paragraph of your audit report. (4 marks)
- (b) Explain two ways in which fraudulent financial reporting might be carried out in an organisation. (4 marks)

- (c) In some organisations, the internal audit function is involved in the provision of a broad range of services that can either be classified as assurance services or consulting services.

**Required:**

Discuss four distinguishing features between assurance services and consulting services provided by the internal audit function in an organisation. (8 marks)

- (d) In the context of auditing in the public sector, evaluate four objectives of performance audits. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Assess five potential indicators that a client's company is not a going concern. (10 marks)

- (b) Mali Company Associates (CPA) have been the auditors of Karibu Limited for the past three years. The company is in the business of electricity generation. At the beginning of the current financial year ended 31 December 2020, the company decided to diversify its operations to natural gas supply. The auditors were informed about this decision by the company at the time of planning for the interim audit of the current financial year. The directors of the company have appointed Mali Company Associates as the auditors of the new business line.

Examine five actions that Mali Company Associates should take in respect of the new assignment. (10 marks)

**(Total: 20 marks)**

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**CPA PART II SECTION 4**  
**AUDITING AND ASSURANCE**

**FRIDAY: 27 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) International Standard on Auditing (ISA) 505 – External confirmations, considers a number of different types of external confirmations including accounts receivable confirmations.

**Required:**

- (i) Distinguish between a “positive confirmation” and a “negative confirmation”. (4 marks)
- (ii) Evaluate four circumstances, other than the confirmation of accounts receivable, where external confirmations might be used by the auditor to obtain audit evidence. (4 marks)

- (b) International Standard on Auditing (ISA) 315 – Identifying and assessing the risks of material misstatement through understanding the entity and its environment, sets out matters that should be documented during the planning stage of an audit.

**Required:**

Highlight six matters that should be documented when developing an audit plan. (6 marks)

- (c) International Standard on Auditing (ISA) 230 – Audit Documentation, provides guidance to auditors in respect of audit working papers.

**Required:**

Summarise six factors which could affect the form and content of audit working papers. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) An overall audit strategy guides the auditor in developing an audit plan.

**Required:**

Examine four matters that might be taken into consideration by an auditor when developing the overall audit strategy. (8 marks)

- (b) Describe five motives for fraudulent financial reporting by the management of an entity. (5 marks)

- (c) Other than in fraud detection, suggest four other areas where forensic accounting and auditing might be applied. (4 marks)

- (d) Evaluate three approaches used in performance auditing in the Public Sector. (3 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) (i) Distinguish between “tests of control” and “substantive tests”. (4 marks)

- (ii) Describe six tests of control that an auditor might carry out in the course of his audit assignment. (6 marks)



- (b) Any work delegated to audit assistants should be directed, supervised and reviewed in a manner which provides reasonable assurance that such work is performed competently.

**Required:**

Examine four matters that might be taken into consideration when reviewing the work performed by audit assistants in an audit engagement. (4 marks)

- (c) Your audit firm is currently engaged in the audit of Zed Ltd. for the financial year ending 30 November 2020. You are considering whether to perform certain tests manually or with the assistance of computer assisted audit techniques (CAATs).

**Required:**

Discuss three factors that could influence your decision on whether to perform the tests manually or with CAATs.

(6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Your friend James Nyakemincha has recently purchased some shares from ABC Ltd., a listed company at the Securities Exchange. You questioned him on whether he had investigated the company before purchasing the shares. He replied: "Not really, I chose ABC Ltd.'s shares because I read in the newspaper that ABC is externally audited, of which not all companies are, and that their auditors are an international auditing firm hence it must be a good investment".

**Required:**

Citing five reasons, justify why you would agree or disagree with James' view with regard to his purchase of shares.

(10 marks)

- (b) Discuss five mechanisms that the management of an audit firm could use to ensure compliance with the professional code of ethics by members of staff.

(10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) In terms of International Standard on Auditing (ISA) 700 - Forming an opinion and reporting on financial statements; in evaluating whether the financial statements are presented fairly in the context of the financial reporting framework, the auditor should evaluate important aspects of the financial statements.

**Required:**

Identify five aspects of the financial statements which the auditor should evaluate.

(5 marks)

- (b) Describe five audit assertions you would test in the conduct of an audit of office furniture and equipment. (10 marks)

- (c) Explain five reasons why directors might decide not to correct a material misstatement in the financial statements.

(5 marks)

**(Total: 20 marks)**

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CPA PART II SECTION 4

AUDITING AND ASSURANCE

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) Lingo Ltd. was recently incorporated. It will be operating in the retail sector. The company has five directors and is currently in the process of setting-up in order to commence business on 1 January 2020. The directors of the company are considering outsourcing the internal audit function in the interim period instead of recruiting their own staff.

**Required:**

Analyse six advantages to Lingo Ltd. of outsourcing the internal audit function.

(6 marks)

- (b) In relation to audit investigations:

(i) Highlight six characteristics of audit investigations.

(6 marks)

(ii) Evaluate eight reasons why audit investigations might be conducted.

(8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) The completeness assertion is always the most difficult for the auditor to assess, particularly in relation to provisions and contingent liabilities.

**Required:**

Describe six steps that might be undertaken by the auditor to confirm unrecorded liabilities.

(6 marks)

- (b) You work as an audit senior for Kamau Mengo and Associates. You have been appointed to be the lead auditor of Tamu Tamu Ltd. for the financial year ended 31 October 2019. Tamu Tamu Ltd. specialises in the production of biscuits and cakes.

During preliminary audit work, you noted that the profitability of the company declined, costs increased and prices charged were higher than those of competitors. This was due to low levels of output. In recent years, Tamu Tamu Ltd. has been financing its operations using a bank overdraft facility. This issue was raised during a meeting between the auditors and Tamu Tamu Ltd.'s management.

During this meeting, a discussion took place which focused on actions that could be taken by the management to improve the liquidity of the company. The management team informed you of a plan to expand facilities for producing biscuits, as this line of production had maintained its market share. Tamu Tamu Ltd. has applied for a bank loan to finance this expansion and also maintain the present level of working capital.

To support its request for a loan, the company has prepared a cash flow forecast for the two years from the end of the reporting period. The internal audit department has submitted a report on this forecast to the board of directors. However, the bank has said it would like a report from the external auditors, to confirm the reasonableness of the forecast.

Following this request, the company has requested you to examine the cash flow forecast and write a report to the bank.

**Required:**

(i) Describe three levels of assurance that could be included in your response to the bank's request.

(6 marks)

(ii) Assess eight procedures that could be adopted to examine the cash flow forecast.

(8 marks)

(Total: 20 marks)

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### QUESTION THREE

- (a) Your firm, JM and Associates, has just concluded an external audit on Familia Medical Services Ltd. Based on the audit findings, JM and Associates issued an unqualified report to the company.

**Required:**

- (i) Explain the term “unqualified opinion”. (2 marks)
  - (ii) Suggest five matters that could be included in your unqualified report to the company. (5 marks)
- (b) In relation to auditing in a computerised environment:
- (i) Explain the term “test data”. (2 marks)
  - (ii) Analyse two uses of test data when auditing a computerised environment. (2 marks)
- (c) Distinguish between “tolerable error” and “expected error”. (4 marks)
- (d) (i) Explain the term “inherent risk”. (1 mark)
- (ii) Highlight four factors that could result in an increase in inherent risk of a business. (4 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) In the context of International Standard on Auditing (ISA) 560 – Subsequent Events:

- (i) Distinguish between “adjusting events” and “non-adjusting events” giving an example in each case. (4 marks)
- (ii) Analyse the relationship between “going concern” and “non-adjusting event”. (2 marks)

- (b) The financial reporting year of Kipengo Ltd., ends on 31 October. The financial statements of the company for the year ended 31 October 2019 are due to be approved on 15 December 2019. You were appointed to carry out the audit assignment and arising from your audit work, the following events have come to your attention:

1. On 5 November 2019, Kipengo Ltd. sold inventory for a price which was less than its cost price. (The inventory had been recorded in the financial statements as closing inventory).
2. Kipengo Ltd. issued new shares on 7 November 2019.
3. A fire in the warehouse destroyed all of Kipengo Ltd.’s inventory on 10 November 2019.
4. A major customer who owed Kipengo Ltd. Sh.3,000,000 as at 31 October 2019 was declared bankrupt on 12 November 2019.
5. On 23 November 2019, Kipengo Ltd. Purchased an asset worth Sh.1,600,000.

**Required:**

Review each of the events above. Advise, with reasons, if the event is an adjusting or non-adjusting event and the action to be taken (if any) on Kipengo Ltd.’s financial statements. (10 marks)

- (c) Describe four objectives of public sector auditing. (4 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) You have recently been appointed as the auditor of Sugo Ltd. for the financial year ended 30 June 2019.

**Required:**

Examine eight reasons why it is important for your audit firm to review Sugo Ltd.’s internal control system prior to undertaking verifications of transactions. (8 marks)

(b) Kaka Kimenju & Co. is an international audit firm with a number of clients listed on the securities exchange. Recently, the firm held a staff training session on quality control. During the meeting, the members of staff were invited to raise matters from their past experiences relating to the ethical code on independence. Some of the matters raised are outlined below:

1. Shortly before commencing the final audit of AKZ Ltd., a listed company, a junior staff member on the audit team inherited a substantial number of shares in that company. No action was taken because, although representing a large investment for the staff member concerned, the number of shares were totally immaterial with respect to the company. Moreover, the partner knew that when the company's results would be announced, the share price would rise and he did not think it was fair to require the staff member to sell them before hand.
2. The management accountant of ABC Ltd., a listed client, had an accident and was away from work for three months. At the time of the accident, the audit senior was winding up the prior year's audit. Given his familiarity with the company's management accounting system, it was agreed that he would take over as the management accountant for the three months.
3. Kaka Kimenju & Co. warned its client, MKN Ltd., that its computer system lacked essential controls. Subsequently, MKN Ltd., decided to install a totally new system and Kaka Kimenju and Co.'s management consultancy department was appointed to design the new system.

**Required:**

Evaluate whether Kaka Kimenju & Co. had complied with the ethical code on independence or had acted unprofessionally in any other way with respect to each of the above scenarios.

(12 marks)

(Total: 20 marks)

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CPA PART II SECTION 4

AUDITING AND ASSURANCE

THURSDAY: 23 May 2019.

Time Allowed: 3 hours.

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

**QUESTION ONE**

The Finance Director of Usonga Ltd. has informed you that some fraud took place during the year in the company's payroll department. A number of fictitious employees were set up on the payroll and wages were paid into one bank account that belonged to two supervisors who have recently resigned. One of the supervisors had the sole responsibility for setting up new entrants in the payroll system, while the other supervisor processed and authorised bank transfer requests for wages and supplier payments.

The finance director has requested your audit firm for recommendations on how to improve controls in this area to prevent this type of fraud recurring. Usonga Ltd. has recently established a Human Resources department.

**Required:**

- (a) Explain three types of control that Usonga Ltd. could put in place to reduce the risk of the above fraud recurring. For each control, describe how it would mitigate the risk. (12 marks)
- (b) Describe four procedures which you would perform to assess whether Usonga Ltd. is a going concern. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Describe three responsibilities of an auditor in the audit of general purpose financial statements. (6 marks)
- (b) The Finance Director of Kijanj Industries has requested your firm to undertake a non-audit assurance engagement later in the year. Part of your team includes an audit assistant who has not been involved in such an assignment before and has asked you to explain what an assurance engagement involves.

**Required:**

Explain three key elements of an assurance engagement. (6 marks)

- (c) In the context of modifying an audit opinion, the auditor might either conclude that:
- (i) Based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement;
- Or
- (ii) As a result of being unable to obtain sufficient and appropriate audit evidence, the financial statements as a whole are not free from material misstatement.

**Required:**

Differentiate between the two audit conclusions above. (4 marks)

- (d) Outline four safeguards that an audit firm could implement to address potential conflicts of interest when auditing two competing clients. (4 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) In the context of International Standard on Auditing (ISA) 620 relating to reliance on the work of an expert:
- (i) Describe two situations where an auditor might need to rely on the work of an expert. (2 marks)
  - (ii) Explain three factors taken into consideration by an auditor when placing reliance on the work of an expert. (6 marks)
- (b) Examine four contents of working papers in circumstances where the auditor has used analytical procedures as substantive tests in carrying out his audit engagement. (4 marks)
- (c) As an audit assistant engaged in the audit of Samawati Ltd., you have been assigned the audit of non-current assets. The company has a substantial number of items of plant and machinery in its books of account.

**Required:**

- (i) Summarise two objectives of an internal control system over the company's non-current assets. (2 marks)
- (ii) Discuss three internal control procedures you would recommend to the company to safeguard its investments in non-current assets. (6 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) With reference to an auditor's report, examine the matters that are included in the following paragraphs:
- (i) Basis for opinion. (3 marks)
  - (ii) Key audit matters. (3 marks)
- (b) Citing two examples, explain the term "fraudulent financial reporting". (3 marks)
- (c) Discuss four circumstances which might cause an auditor to change his risk assessment of a client company. (8 marks)
- (d) Examine the importance of materiality assessment to an auditor. (3 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) Describe three components of an entity's internal control system. (6 marks)
- (b) (i) Explain the term "reasonable assurance" as used in auditing. (2 marks)
- (ii) The internal audit function of an entity should have an internal audit charter approved by the Board to govern its activities:

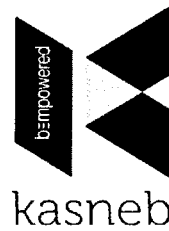
**Required:**

As an internal auditor of Zed Ltd., discuss six matters contained in an internal audit charter of an entity. (12 marks)

**(Total: 20 marks)**

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**CPA PART II SECTION 4**  
**AUDITING AND ASSURANCE**

**THURSDAY: 29 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) Analyse two types of threats that might arise from an audit firm accepting to undertake non-audit related services to its client. (4 marks)
  - (b) In the context of the Companies Act, outline four statutory rights of an auditor. (4 marks)
  - (c) Explain the term “negative assurance” as used in auditing. (2 marks)
  - (d) With reference to an auditor’s report, discuss five matters that should be included in the “auditor’s responsibilities for the audit of the financial statements” paragraph. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Auditors should obtain written confirmation of representations from management on matters material to the financial statements.  
  
**Required:**
  - (i) Explain four reasons why an auditor should discuss the contents of the letter of representation with the directors of a client at an early stage in the audit. (8 marks)
  - (ii) Analyse three responsibilities of an auditor on receipt of written representations from management. (6 marks)
- (b) Some companies have a substantial portion of their total assets comprising investments in stocks and shares of other entities.

**Required:**

- Outline three audit objectives sought by an auditor when examining a client’s investments in stocks and shares. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Describe the process that an auditing firm should undertake to assess whether pre-conditions for an audit are present when accepting an audit assignment. (4 marks)
- (b) Identify three main areas, other than audit risk, which should be included within the audit strategy document for an audit of a client and for each area, provide a relevant example. (6 marks)
- (c) International Standard on Auditing (ISA) 510, “Initial Audit Engagements - Opening Balances” requires auditors to undertake additional audit procedures for confirming opening balances for new audit engagements. In addition, the ISA gives guidance on audit report implications if auditors are unable to confirm opening balances or if they contain misstatements.

**Required:**

- (i) Describe the procedures the auditor should undertake to confirm opening balances for a new audit engagement. (3 marks)

- (ii) Explain the impact on the audit report if the auditor is unable to confirm the opening balances or if the opening balances contain misstatements. (3 marks)
- (d) Citing two areas and with relevant examples in each case, explain the purpose of a value for money audit. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) During the audit of Health Care Limited, the audit team discovers that intangible assets balance includes Sh.4,000,000 related to one of their ten development projects. This expenditure does not meet the criteria for capitalisation. As this project is ongoing, the finance director has suggested that no adjustment should be made in this year's financial statements. He is confident that the project will meet the criteria for capitalisation in the following year.

Materiality considerations have established that the amount represents 7% of profit before tax and 1.2% of net assets.

**Required:**

Discuss the audit issues applicable in the above case. (6 marks)

- (b) The finance director of your client, ABC Ltd., has read about review engagements and is interested in the possibility of ABC undertaking these in future. However, he is unsure how these engagements differ from an external audit and how much assurance would be gained from these types of engagement.

**Required:**

- (i) Explain the purpose of review engagements and how they differ from external audits. (4 marks)
- (ii) Describe the level of assurance provided by external audits and review engagements. (4 marks)
- (c) Explain three ethical threats which might affect the independence of audit practitioners and for each threat, explain how it might be reduced to an acceptable level. (6 marks)

**(Total: 20 marks)**

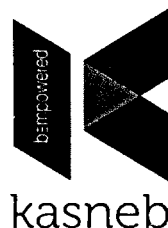
#### QUESTION FIVE

- (a) With reference to International Standard on Auditing (ISA) 520 - "Analytical Procedures", explain four different types of analytical procedures available to the auditor. (8 marks)
- (b) With respect to information technology (IT) audits, explain the following terms:
- (i) Social media risk assessment. (2 marks)
- (ii) Software licence review. (2 marks)
- (iii) IT governance audit. (2 marks)
- (iv) IT risk assessment audit. (2 marks)
- (c) Describe two types of errors that could arise from sampling risk. (4 marks)

**(Total: 20 marks)**

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**CPA PART II SECTION 4**  
**AUDITING AND ASSURANCE**

**THURSDAY: 24 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 the procedures you would apply in detecting fraud where employees create non-existent suppliers and then divert payments to themselves. (8 marks)
- (b) International Standard on Review Engagements (ISRE) 2400 “Engagements to review Financial Statements” sets out the objective, general principles and procedures to be applied for a review engagement.

**Required:**

Explain six main procedures which an auditor should perform when conducting a review engagement. (12 marks)  
**(Total: 20 marks)**

**QUESTION TWO**

- (a) You are considering deploying an audit software to undertake substantive testing of data files in the sales and inventory system.

**Required:**

Discuss five challenges you might encounter while using the audit software. (10 marks)

- (b) Explain the following terms as used in contemporary audit:
- (i) Cyber insurance. (2 marks)
  - (ii) Social engineering. (2 marks)
  - (iii) Data protection. (2 marks)
  - (iv) Remediation procedures. (2 marks)
  - (v) Forensic accounting. (2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) You have been appointed the lead auditor of CBC Ltd. and you have held a meeting with management where certain representations were orally given and others implied.

**Required:**

With reference to International Standard on Auditing (ISA) 580 “Written Representations”, discuss the circumstances that might lead you to require management to confirm in writing the oral and implied representations. (8 marks)

- (b) Highlight the substantive procedures that might be performed by an auditor to verify the payroll. (8 marks)
- (c) In the context of public sector auditing, distinguish between “performance audits” and “compliance audits”. (4 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

(a) Explain the internal control objectives in each of the following cases relating to credit sales:

- (i) Credit approval. (2 marks)
- (ii) Receipt of sales order. (2 marks)
- (iii) Invoicing of goods dispatched. (2 marks)
- (iv) Entry into the debtor's ledger. (2 marks)

(b) Your firm has been appointed the auditor for Musoni Ltd., a company that distributes computer equipment. During the audit, the following matters came to your attention:

1. The depreciation rates had been reviewed and adjusted resulting in an increase in asset lives and a reduction in depreciation amounts.
2. Stock take across all the warehouses could not be undertaken due to lack of staff.
3. One of the warehouses caught fire and goods worth Sh.50 million got damaged. A claim had been lodged with the insurance company but the incident was still under investigation. The amount had however been included in the financial statements as expected income.
4. Bank reconciliation had not been completed even though there were material balances.

**Required:**

Describe four audit risks arising from the issues above and the proposed auditor's response.

(8 marks)

(c) Distinguish between "assurance engagements" and "non-assurance engagements".

(4 marks)

(Total: 20 marks)

#### QUESTION FIVE

(a) A suitable criteria is the benchmark used to evaluate a subject matter for the purpose of presentation and disclosure.

**Required:**

Describe three characteristics of a suitable criteria.

(6 marks)

(b) Explain the three components of the fraud triangle.

(6 marks)

(c) Discuss four reasons why an auditor might decide not to seek for re-election.

(8 marks)

(Total: 20 marks)

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**CPA PART II SECTION 4**  
**AUDITING AND ASSURANCE**

**THURSDAY: 30 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) Auditors carry out various audit assignments.

In relation to the above statement, explain four non-assurance assignments that auditors undertake. (4 marks)

- (b) Describe three circumstances in which the management of an organisation might request the auditor to change the terms of an audit engagement. (6 marks)
- (c) Kisomo Kizuri is a charity organisation that raises funds for educational projects. Charities in the country from which Kisomo Kizuri operates have recently become subject to new audit and accounting regulations.

Your firm has been appointed as Kisomo Kizuri's new auditors.

**Required:**

Analyse five audit tests you might carry out on the income and expenditure from fund raising events. (10 marks)  
**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the following terms as used in contemporary audit:

- (i) Environmental audit. (2 marks)
- (ii) Corporate governance. (2 marks)
- (iii) Enterprise risk management (ERM). (2 marks)

- (b) Citing a relevant example in each case, explain the following control procedures:

- (i) Segregation of duties. (3 marks)
- (ii) Authorisation and approval. (3 marks)
- (iii) Physical controls. (3 marks)

- (c) Analyse five circumstances that might lead to qualification of financial statements. (5 marks)  
**(Total: 20 marks)**

**QUESTION THREE**

- (a) Explain six benefits an auditor might derive from using computerised audit software. (6 marks)
- (b) Citing a relevant example in each case, distinguish between "adjusting events" and "non-adjusting events". (6 marks)
- (c) International Standard on Auditing (ISA) 620 "Using the work of an expert" contains guidance to an auditor on using the work of an expert to provide knowledge relevant to the audit which the audit firm does not possess.

Evaluate four procedures that an audit firm might apply before relying on such an expert. (8 marks)  
**(Total: 20 marks)**

#### QUESTION FOUR

- (a) Examine six factors that might influence inherent risk at the organisational level. (6 marks)
- (b) Discuss the importance of the following provisions of professional ethics:
- (i) Audit fees. (2 marks)
  - (ii) Conflict of interest. (2 marks)
  - (iii) Due care and skill. (2 marks)
- (c) You are the audit manager in charge of the audit of Lenga Ltd. You have come across the following matters which you consider to be material. Explain how you would report each matter in the audit report:
- (i) A major customer owing the company a substantial amount, has filed for bankruptcy. No provision for this has been made in the financial statements. (2 marks)
  - (ii) Some of the company's inventory is of a special nature. The expert you were relying on to value them might not be available to carry out the valuation in time for issuance of an audit report. You have to rely on management representation. (2 marks)
  - (iii) A major supplier has gone out of business and there is no immediate alternative for the raw material in question. (2 marks)
  - (iv) After the financial year end, a major fire broke out destroying machinery that had been purchased at the end of the year. (2 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Highlight six reasons why an auditor might need to understand the entity and its environment before undertaking an audit assignment. (6 marks)
- (b) Explain the following terms:
- (i) Reasonable assurance. (2 marks)
  - (ii) Opinion shopping. (2 marks)
- (c) Discuss five stages that might be followed in carrying out a forensic audit. (10 marks)
- (Total: 20 marks)**
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## CPA PART II SECTION 4

### AUDITING AND ASSURANCE

THURSDAY: 25 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 five disclosure requirements that should be made in an audit report as specified in the Companies Act. (10 marks)

(b) Your firm has been appointed as the auditor of Fanaka Limited for the year ended 31 December 2016.

Explain why each of the following matters which you have noted during the audit should or should not be included in the letter to the management and those charged with governance:

- (i) The company upgraded the accounting system which upon testing you noted that the system did not carry over all the balances accurately. The differences in credit and debit balances considered separately were material to the financial statements but when offset against each other, they were immaterial. (2 marks)
- (ii) The new accounting system had a functionality that allows online approval of transactions by the various signatories but it had not been activated. The signatories continued to approve transactions manually and all the transactions sampled were duly approved. (2 marks)
- (iii) The company supplying stationery to Fanaka Limited was owned by the wife of the procurement manager. However, you confirmed that the appropriate procurement procedures were followed. (2 marks)
- (iv) The bank reconciliations were required to be signed by the preparer (Financial Accountant) and approved by the finance manager. You noted that 6 out of the 12 bank reconciliation statements were not signed by the Financial Accountant but had been approved by the Finance Manager. However, you confirmed that the reconciliation statements were accurate. (2 marks)
- (v) The company was involved in a restructuring exercise that resulted in the discharge of 25% of the staff. You got to learn that the affected staff had filed a suit in court to challenge their dismissal but the matter had not been heard. However, the management was keen to have the suit heard in order for them to present the issue for reporting in the next financial year when it would be possible to establish if there was a reputable contingent liability. (2 marks)

(Total: 20 marks)

#### QUESTION TWO

(a) Describe five roles you would expect the internal audit staff to perform. (10 marks)

(b) Discuss four capabilities and competencies expected of the engagement team as espoused in the International Standards of Auditing (ISA) 220 "Quality Control for Audit of Financial Statements". (8 marks)

(c) Outline two benefits of the auditor communicating with those charged with governance. (2 marks)

(Total: 20 marks)

#### QUESTION THREE

(a) Explain the following terms as used in auditing:

- (i) Emphasis of matter paragraph. (2 marks)
- (ii) Contingent liability. (2 marks)
- (iii) Audit committee. (2 marks)
- (iv) Assurance engagement risk. (2 marks)

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Out of 2



- (b) Your audit firm was recently appointed the auditor of Baraka Ltd. The company has a subsidiary based in Mombasa and its auditor had retired the previous year.

**Required:**

- (i) Enumerate six factors that would influence you in determining whether or not to send a separate engagement letter to the subsidiary. (6 marks)
- (ii) If the audit of Baraka Ltd. was a recurring audit, suggest six factors that would make it appropriate for you to send a new engagement letter. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain three factors to consider while designing an effective system of internal control. (6 marks)
- (b) In the context of auditing, define the following:
- (i) Operational audit. (2 marks)
- (ii) Financial audit. (2 marks)
- (iii) Agreed upon procedures engagement. (2 marks)
- (iv) Positive assurance. (2 marks)
- (c) Discuss three responsibilities of the external auditor in relation to prevention and detection of fraud. (6 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) State the opinions you would give in each of the following situations:
- (i) The books of the client were taken away by the regulator for investigations and were not available for audit. (2 marks)
- (ii) The provision for doubtful debts was not adequate. The debtors in the financial statement were misstated but the financial statements gave a true and fair view. (2 marks)
- (iii) There was no provision for depreciation and the directors were unwilling to provide for any amounts during the financial year. The amount if provided for would reduce the reported profit by 30%. (2 marks)
- (iv) There was a legal suit filed by a customer who was unsatisfied with the goods supplied but no provisions were made in the books. The assessment of the case by the company lawyers indicate that the customer has very slim chances of success. (2 marks)
- (b) Discuss four factors that might influence the extent of substantive tests carried out during an audit. (8 marks)
- (c) Highlight four substantive procedures you would perform on the year end trade payables. (4 marks)

**(Total: 20 marks)**

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## CPA PART II SECTION 4

### AUDITING AND ASSURANCE

THURSDAY: 24 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) In the context of International Standards of Auditing (ISA) 210 "Agreeing the Terms of Audit Engagements", discuss six steps the auditor should undertake to establish whether the pre-conditions for an audit were present. (12 marks)
- (b) In the context of International Standards of Supreme Audit Institutions (ISSAI) 100 "Fundamental Principles of Public Sector Auditing", discuss four principles relating to planning an audit. (8 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) You have been appointed the lead auditor in charge of the audit of Sky Computer Limited. The financial year ended on 31 January 2016 and the audit was concluded on 1 March 2016. The audit report was signed on 15 May 2016 and the financial statements issued on 20 June 2016. The following material events occurred between the balance sheet date and 30 June 2016:

1. 25 February 2016 - A sudden flood resulted in damage of an uninsured equipment worth Sh.12 million.
2. 1 May 2016 - A customer owing Sh.4 million was declared bankrupt and no recovery of the amount was expected.
3. 15 June 2016 - The company lost a law suit amounting to Sh.6 million which was filed in 2013 by a customer due to a defective computer software.
4. 25 June 2016 - The Board of directors approved the closure of a division that had been making losses consistently for the last four years.

**Required:**

Explain the appropriate treatment of each of the above events. (8 marks)

- (b) Describe four audit procedures necessary to aid in obtaining evidence relating to subsequent events. (8 marks)
- (c) Explain the responsibility of an auditor with regard to events occurring between the date the financial statements are signed and the annual general meeting. (4 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) Examine five possible frauds in the area of purchases that an Internal Control System should be designed to prevent and detect. (10 marks)
- (b) Discuss five input validity checks you would expect to find in a computerised financial system. (10 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Explain four factors which might influence an auditor while assessing the reliability of evidence gathered during an audit. (8 marks)
- (b) For financial reporting purposes, the entity's risk assessment process includes how management identifies business risks relevant to the preparation of financial statements in accordance with the applicable financial reporting framework.

**Required:**

Discuss six circumstances in which risks in an entity might arise or change. (12 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Describe four types of assurance engagements. (8 marks)
- (b) Summarise four substantive procedures that you would perform in respect of bank overdraft. (8 marks)
- (c) Highlight four matters that an auditor is likely to include in a management letter. (4 marks)

**(Total: 20 marks)**

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## CPA PART II SECTION 4

### AUDITING AND ASSURANCE

THURSDAY: 26 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) In the context of International Standards of Supreme Auditing Institutions 3100, "Performance Audit Guidelines - Key Principles":
- (i) Define the term "performance auditing". (2 marks)
  - (ii) Discuss the three approaches that might be taken in examining the performance of the audited entity. (6 marks)
- (b) During the audit of Bamboo Ltd., you suspect that there might have been some irregularities in the procurement department based on the discussions you had with some of the staff members.

**Required:**

Explain six audit steps you would undertake to help you in arriving at an appropriate audit opinion. (12 marks)  
(Total: 20 marks)

#### QUESTION TWO

- (a) Highlight two limitations of external audits. (2 marks)
- (b) Describe the type of assurance report a practitioner would issue in each of the following engagements:
- (i) Reasonable assurance engagement. (2 marks)
  - (ii) Limited assurance engagement. (2 marks)
- (c) Describe four types of audit opinions that an auditor could issue. (8 marks)
- (d) In the context of International Standard on Auditing (ISA) 260 - "Communicating with those charged with governance", describe three matters that the auditor should communicate to those charged with governance in relation to auditor independence. (6 marks)  
(Total: 20 marks)

#### QUESTION THREE

- (a) (i) Define the term "sampling risk". (2 marks)
- (ii) Discuss two types of errors that could arise from sampling risk. (4 marks)
- (b) Describe the impact of each of the following situations on the sample size:
- (i) An increase in the extent to which the auditor's risk assessment takes into account relevant controls. (2 marks)
  - (ii) An increase in the use of other substantive procedures directed at the same assertion. (2 marks)
  - (iii) An increase in the auditor's assessment of the risk of material misstatement. (2 marks)
- (c) Explain four purposes of an audit program. (8 marks)  
(Total: 20 marks)

#### QUESTION FOUR

- (a) Describe the following Computer Assisted Audit Techniques (CAATs):
- (i) Embedded audit facilities. (2 marks)
  - (ii) Integrated test facilities. (2 marks)
- (b) List four audit procedures that could be carried out using computer assisted audit techniques. (4 marks)
- (c) Shujaa Ltd. is in the process of implementing a computer based accounting system. As their auditor, you have been requested to advise on the appropriate controls to be implemented to prevent unauthorised changes to the data files.

**Required:**

Suggest six controls that the management of Shujaa Ltd. should consider. (12 marks)

(Total: 20 marks)

#### QUESTION FIVE

- (a) In the context of International Standards on Auditing (ISA) 560 - "Subsequent Events":
- (i) Define the term "subsequent event". (2 marks)
  - (ii) Discuss two objectives of the auditor in relation to subsequent events. (4 marks)
- (b) Explain four ways in which the auditor might minimise risk during a particular audit. (8 marks)
- (c) You have been appointed the auditor of Fadhili Ltd. and as part of the audit, you have requested management to provide you with a letter of representation.

**Required:**

Discuss three matters you would expect to find in the letter in relation to management's responsibilities. (6 marks)

(Total: 20 marks)

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# KASNEB

## CPA PART II SECTION 4

### AUDITING AND ASSURANCE

THURSDAY: 26 November 2015

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 "forensic accounting". (1 mark)  
(ii) Explain a situation in which forensic accounting might be applied. (1 mark)
- (b) Discuss the three E's of value for money auditing as used in public sector auditing. (6 marks)
- (c) In the context of International Standard on Auditing (ISA) 220-Quality Control for an Audit of Financial Statements, discuss the quality control procedures the engagement partner might consider in each of the following:
- (i) Client acceptance. (4 marks)  
(ii) Engagement team. (4 marks)  
(iii) Direction. (4 marks)

(Total: 20 marks)

#### QUESTION TWO

- (a) Explain four assertions relevant to accounts payable at year end. (8 marks)
- (b) You are the auditor responsible for the audit of Yummy Foods Ltd., a company that operates a chain of fast food outlets. It has come to your attention that a customer has sued the company claiming an amount of ten million shillings for food poisoning. The amount is material, but management believes there is good defence against the claim and thus no provision or disclosure has been made in the books.

##### Required:

- (i) Evaluate five items of evidence that might enable you form a conclusion on the likelihood of the claim being successful. (10 marks)  
(ii) Describe how the matter could be reported in the financial statements if your conclusion is that there is a possibility, but not a probability that the claim would be successful. (2 marks)

(Total: 20 marks)

#### QUESTION THREE

- (a) (i) Explain the meaning of the term "going concern". (2 marks)  
(ii) State eight factors that might indicate doubt in the ability of an entity to continue as a going concern. (8 marks)
- (b) Discuss five factors that could influence the extent to which an auditor might use analytical review to collect audit evidence. (10 marks)

(Total: 20 marks)

#### QUESTION FOUR

- (a) In the context of International Standard on Auditing (ISA) 315-Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment, describe five components of an entity's internal control system. (10 marks)
- (b) Explain the following terms as used in auditing:
- (i) Audit risk. (2 marks)  
(ii) Inherent risk. (2 marks)  
(iii) Control risk. (2 marks)  
(iv) Attest engagement. (2 marks)  
(v) Direct reporting engagement. (2 marks)

(Total: 20 marks)

### QUESTION FIVE

- (a) Your audit firm was recently appointed the auditor of ABC Ltd. for the first time. ABC Ltd. requires that the audit be concluded within two months after the end of the financial year.

Describe the steps your audit firm would take prior to accepting this appointment.

(10 marks)

- (b) During the audit of Faida Ltd., you noticed the following:

1. There were material deposits in the bank just before the year end and subsequent withdrawals thereafter.
2. Many debtors disputed the amount alleged by management after circularisation. There were also inconsistencies between the dates when the debtors made their payments and the dates when the records were updated, noting that all the payments were in cash.

**Required:**

- (i) Explain the impact of each of the two aspects above. (2 marks)
- (ii) Examine four audit procedures that could help you in arriving at an audit opinion in each of the two aspects above. (8 marks)

(Total: 20 marks)

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# KASNEB

## CPA PART II SECTION 4

### AUDITING AND ASSURANCE

#### 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

You are an audit manager in Ujima & Co. One of the your audit clients, Shangilia Africa Ltd. is a specialist supplier of African literature books with over 120,000 customers. The company owns one large warehouse which holds about 1 million books of up to 80,000 different titles. Customers place orders for books either over the internet, or by mail order. Books are dispatched on the day of receipt of the order.

Returns are allowed up to 30 days from the dispatch date provided the books look neat and unread.

Due to high inventory turnover, Shangilia Africa Ltd. maintains a perpetual inventory system using standard purchased software. Ujima Co. has audited the system for the last five years and has found no error within the software.

Continuous inventory checking is carried out by Shangilia Africa Ltd.'s internal audit department.

You are currently reviewing the continuous inventory checking system with an audit junior. The audit junior needs experience in auditing continuous inventory checking systems and some basic knowledge on the code of ethics for professional accountants.

#### Required:

- (a) Explain four advantages of using a perpetual inventory system. (4 marks)
- (b) Summarise the audit procedures you would perform to confirm the accuracy of the continuous inventory checking at Shangilia Africa Ltd. Justify each of the procedures. (7 marks)
- (c) Explain five fundamental principles set out in the Code of Ethics for professional accountants. (5 marks)
- (d) During preliminary audit planning you note that the engagement letter has been returned unsigned by the directors of Shangilia Africa Ltd. When asked to explain their action, the directors indicate that they cannot allow you access to information on the company's new website development as this contains various trade secrets. You would not, therefore, be able to perform audit procedures on the research and development expenditure incurred on the website and included in non-current assets.

Briefly explain four actions you would take as a result of directors not signing the engagement letter. (4 marks)

(Total: 20 marks)

#### QUESTION TWO

- (a) Outline the meaning of the following terms:
  - (i) Audit risk. (1 mark)
  - (ii) Inherent risk. (1 mark)
  - (iii) Control risk. (1 mark)
  - (iv) Detection risk. (1 mark)
- (b) My-family Car Hire Limited has a large fleet of cars for hire. The firm operates from twelve separate depots providing national car hire services around the country. It offers car hire services to corporate customers on credit payment terms, including payment by cash.



In addition to the car hire revenue, the company categorises income from the sales of excess damage waiver insurance premiums, the hire of child seats and satellite navigation systems as car hire income.

**Required:**

Explain three factors that would contribute to the assessment of high inherent risks applying to car hire income as reported in the financial statements of My-family Car Hire Limited. (6 marks)

- (c) (i) A Junior colleague working at your firm is uncertain as to why on every audit all of the work carried out by the audit team is regularly reviewed by the audit manager.

**Required:**

Explain the purpose of the review carried out by the audit manager. (5 marks)

- (ii) List two examples of subsequent events that may provide confirming evidence when auditing the financial statements of a large manufacturing company. (2 marks)

- (iii) State the auditor's responsibility for reporting on the going concern assumptions of a company. (3 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Smiling Windows Co. (SW) is a window cleaning company. Customers windows are cleaned monthly. The window cleaner then posts a stamped addressed envelope for payment through the customer's front door.

SW has a large number of receivables balances. These customers pay by cheque or cash which is received in the stamped addressed envelopes through the post. The following procedures are applied to the cash received cycle:

1. A junior clerk from the accounts department opens the posts and if any cheques or cash have been sent, she records the receipts in the cash received log and then places all the monies into the locked small cash box.
2. The content of the cash box are counted each day and every few days these sums are banked by whichever member of the finance team is available.
3. The cashier records the details of the cash received log into the cash received day books and also updates the sales ledger.
4. Usually on a monthly basis the cashier performs bank reconciliation which he then files. If he misses a month then he catches this up in the following months' reconciliation.

**Required:**

- (i) Explain three deficiencies in the system. (3 marks)

- (ii) Suggest controls to address each of these deficiencies. (3 marks)

- (b) Describe the steps an audit firm should perform prior to accepting a new audit engagement. (5 marks)

- (c) Explain the term "International Standards on Auditing". (4 marks)

- (d) Outline how an audit committee may be of assistance in the relationship between the internal auditor and external auditor. (5 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) XYZ Ltd.'s directors have expressed an interest in your audit firm Tato & Co. to perform other review engagements in addition to the external audit. However, they are unsure how much assurance would be gained via these engagements and how these differ compared to the assurance provided by an external audit.

**Required:**

Identify and explain the level of assurance provided by an external audit and other review engagements. (4 marks)

- (b) Discuss the legal responsibilities of an auditor to shareholders and third parties during the course of their normal professional engagement and the mitigation measures that auditors may institute. (8 marks)

- (c) Knowledge of the business is crucial in determining the most effective and efficient audit strategy of an entity using the internet for electronic commerce. Any auditor needs to have an indepth understanding of the related risks and the measures to minimise them.

**Required:**

Discuss the impact of e-commerce on the audit process.

(8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

Fitness Ltd. (fitness) is a client of your firm and runs both fitness and leisure centres all over your country. You are the audit senior on assignment and the audit field work for the year ended 31 December 2015 has just been completed. The following figures have been extracted from the draft financial statements:

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>Sh."000"</b>	<b>Sh."000"</b>
Revenue	5,000	5,300
Profit before tax	300	320
Taxation	(96)	(102)
Profit after tax	<u>204</u>	<u>213</u>

1. Fitness received fees from customers in November 2014 as they ran a special gym offer for the four months period from 1 November 2014 to 28 February 2015. The fees collected amounted to Sh.20,000 and the full amount had been recorded in revenue for the year ended 31 December 2014.
2. One of the directors is unwilling to disclose her interests in the shares of the company and currently this amount is not shown in the draft financial statements. The director holds 400 ordinary shares of the 200,000 issued ordinary shares of the company.
3. During the audit test of control performed on the revenue cycle, it was noted that the monthly prepared bank reconciliation had not been reviewed on a consistent basis by management.

**Required:**

- (a) Set an appropriate materialist level for fitness, showing your calculation. (4 marks)
- (b) Outline the testing you should perform on the revenue figure which arises from the gym membership fees. (4 marks)
- (c) Draft a memorandum to the audit partner in which you evaluate the potential implications for the audit report of fitness for the year ended 31 December 2014 arising from each of the three issues (1) to (3) described above. (12 marks)

**(Total: 20 marks)**

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