



CERTIFIED PUBLIC ACCOUNTANTS (CPA)

INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

WEDNESDAY: 3 December 2025. Afternoon Paper.

Time allowed: 3 hours.

This paper consists of five (5) questions. 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) Continuous auditing signifies an important shift in how audits are conducted. This approach aims to transform audits from periodic, manual reviews into fast, agile operations that can keep pace with modern demands.

Required:

(i) Discuss **THREE** benefits that might arise from the conduct of continuous audits as opposed to traditional audits. (6 marks)

(ii) Explain **TWO** challenges of continuous auditing. (4 marks)

(b) Your firm, Zawadi and Associates, has been the auditor of Magari Ltd., which has been dealing in motor vehicle spare parts for the past 10 years. Due to the long association, a partner in your audit firm has been requested to sit in Magari Ltd.'s board meeting to provide advisory services. The company is one of your key clients and for the past five years approximately 30% of your firm's gross revenue has been obtained from Magari Ltd. from assurance and taxation services. Last year, Magari Ltd. poached two audit managers from your firm to support the internal audit and finance departments.

In September 2025, Magari Ltd. issued shares during an Initial Public Offer (IPO). Zawadi and Associates was involved in promoting the shares of the company.

Required:

Evaluate **FIVE** ethical threats from the engagement between Zawadi and Associates and Magari Ltd. (10 marks)
(Total: 20 marks)

QUESTION TWO

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

(i) Social engineering. (2 marks)

(ii) Embedded audit facilities. (2 marks)

(iii) Integrated test facilities. (2 marks)

(b) When an auditor uses audit sampling, the objective is to provide a reasonable basis to draw conclusions about the population from which the sample is selected.

Required:

(i) Distinguish between "statistical sampling" and "non-statistical sampling". (4 marks)

(ii) Describe **FOUR** methods of random sample selection. (4 marks)

(c) Discuss the auditor's responsibility in detecting errors, frauds and irregularities in an audit engagement. (6 marks)
(Total: 20 marks)

QUESTION THREE

(a) With reference to International Standard on Auditing (ISA) 230, Audit Documentation:

- (i) Describe **FIVE** roles of audit documentation in supporting the auditor's opinion and accountability. (5 marks)
- (ii) Analyse **FIVE** implications of inadequate documentation during quality reviews of regulatory inspections. (5 marks)

(b) You have recently been appointed as the auditor for Mboga Tamu Enterprises Ltd., a medium sized company that deals in the export of fruits and vegetables. During your opening meeting with the management, you informed them that you have a responsibility to communicate to them on the deficiencies in the internal control system.

Required:

With reference to International Standard on Auditing (ISA) 265, Communicating Deficiencies in Internal Control to those charged with Governance and Management, explain **FIVE** matters you need to consider in determining whether a deficiency in internal control is significant. (10 marks)

(Total: 20 marks)

QUESTION FOUR

(a) The directors of Karibu Ltd. have prepared a cash flow forecast for submission to Fedha Bank. They have requested you as their auditor, to provide a negative assurance report to this cash flow forecast.

Required:

- (i) Distinguish between "positive assurance" and "negative assurance". (4 marks)
- (ii) Evaluate **TWO** advantages the directors of Karibu Ltd. could derive from the negative assurance on their cash flow forecast. (4 marks)

(b) Johanna Ltd. aims to be listed in the Nairobi Securities Exchange. Benjamin Mutie is the chief executive officer and chairman of Johanna Ltd. He appoints and maintains a board of only five executive directors. While the board sets the performance targets for the senior management in the company, no formal targets are set for each director and no review of the board policies is carried out.

Board salaries are set and paid by Benjamin Mutie based on his assessment of all board members, including himself and not their actual performance.

Internal controls in Johanna Ltd. are monitored by the senior accountant, although the company assumes that, as external auditors, your firm will carry out a detailed review of internal controls. Johanna Ltd. does not have an internal audit department or an audit committee. Annual financial statements are prepared, providing detailed information on past performance.

Required:

- (i) Advise Mutie on **TWO** changes that need to be made to the composition of the board of directors of Johanna Ltd. in order to comply with the corporate governance requirements. (4 marks)
- (ii) Explain to Benjamin Mutie **FOUR** benefits of setting up an audit committee. (4 marks)
- (iii) Benjamin Mutie would like to set up an internal audit department, but is not sure about measuring the performance of this department.

Describe **FOUR** key performance indicators of an internal audit department. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) You are the Audit Manager planning the audit of Ukweli Ltd., a new client in your firm. Your firm employs the risk-based audit approach in auditing its clients. In assessing the risk of material misstatement, you need to obtain an understanding of Ukweli Ltd.'s business and its environment.

Required:

Describe **FOUR** methods that your audit team could use to gather knowledge about the business of Ukweli Ltd. (8 marks)

(b) You are the audit manager at Maneno and Associates, a firm of Certified Public Accountants. You are finalising the audit of Matata and Matata Limited, a large agricultural company, for the year ended 30 June 2025.

During the audit, the following issues were identified:

1. **Going concern uncertainty:**

The company has incurred consecutive losses for the last three years and is heavily dependent on a short-term bank loan that is due for repayment within three months. Management has not yet secured alternative financing, but has prepared financial statements on a going concern basis.

2. **Post-balance sheet event:**

August 2025, after the reporting date but before the audit report was signed, heavy flooding destroyed the company's main plantation. The loss was material and will significantly affect the company's ability to generate future cash flows. Management has disclosed this in the notes to the financial statements but has not adjusted the figures.

3. **Legal dispute:**

There is an ongoing court case against the company for alleged environmental pollution. Management believes it will not lose the case and therefore has not made any provision. The auditor, however, considers the likelihood of losing the case as probable and the amount involved is material.

Required:

(i) For each of the three issues mentioned above, identify and justify the type of audit opinion that should be expressed. (9 marks)

(ii) Explain how the auditor should communicate each of these matters in (b) (i) in the auditor's report, specifying whether it should be included under a Key Audit Matter, Emphasis of Matter or Basis for Modified Opinion section. (3 marks)

(Total: 20 marks)

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CPA INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

WEDNESDAY: 20 August 2025. 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 micro small and medium entities (MSMEs) for the last five years. In a recent development, your firm has been appointed to conduct an audit of Maua Ltd., a large public listed company. This is the first assignment of such magnitude. You are required to undertake an interim audit and a final audit.

Required:

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

(i) Interim audit. (4 marks)

(ii) Final audit. (4 marks)

(b) An organisation that you have been auditing has approached your audit firm to review its interim financial information before it releases to the public on quarterly basis as required by the regulations governing its operations.

Required:

In reference to International Standards on Review Engagements (ISRE) 2410, describe **THREE** general principles that your firm would have to apply in performing the review engagement. (6 marks)

(c) Planning for an audit begins by developing the audit planning memorandum or the overall audit strategy.

Enumerate **SIX** contents of an audit planning memorandum. (6 marks)

(Total: 20 marks)

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QUESTION TWO

(a) You are the auditor in charge of Viazi Tamu Enterprises, a distributor of fresh produce to supermarkets across the country. The company has recently expanded its operations and now operates warehouses in various towns and cities in the country. The Finance Director is concerned that the entities' internal controls have not kept pace with this expansion. During your review of internal controls, you discovered the following:

1. Bank reconciliation is carried out every six months.
2. Purchases are authorised by the head of the warehouse and purchase orders can be raised by any member of the warehouse since the procurement department is inadequately staffed.
3. The entity has an internal auditor domiciled in the risk department.
4. Warehouse staff make manual adjustments to inventory records since the inventory management system is manual. They are not required to provide any documentation.
5. There have been increased complaints from supermarkets about delivery discrepancies. The warehouse manager downplayed this claim citing that the discrepancies were not material.

Required:

(i) Identify **FIVE** weaknesses in the internal control system of Viazi Tamu Enterprises. (5 marks)

(ii) For each weakness identified in (a) (i) above, recommend an internal control measure that could be implemented by the company to mitigate the associated risk. (5 marks)

(b) You are a newly hired audit associate at a Musa and Musa Associates. Your firm has been engaged by the board of Lipa Microfinance Ltd., to conduct a forensic audit following allegations of fraudulent loan approvals and embezzlement by senior staff members. The audit senior has tasked you with the duty to prepare a plan on the forensic audit.

Required:

Discuss **FIVE** investigative techniques that you could include in the plan in order to uncover the alleged fraud and embezzlement.

(10 marks)

(Total: 20 marks)

QUESTION THREE

(a) Lima and Limau Associates, a local audit firm is not sure about document audit working papers that are sufficient without carrying excessive information and not scanty.

Required:

Advise Lima and Limau Associates on **EIGHT** characteristics that their working papers should display in accordance with International Standard on Auditing (ISA) 230, Audit Documentation.

(8 marks)

(b) Boresha Ltd. is a medium-sized manufacturing company. The company has recently established an internal audit function to help improve internal controls and operational efficiency. The head of internal audit currently reports directly to the Finance Director. The Finance Director has also asked the internal auditors to assist in the preparation of monthly management accounts and the review of year-end financial statements before they are submitted to the external auditors.

Required:

(i) Evaluate **THREE** ways in which the internal audit function could add value to Boresha Ltd's operations.

(6 marks)

(ii) Analyse **THREE** threats to the independence and objectivity of the internal audit function in Boresha Ltd.

(3 marks)

(iii) For each threat in (b) (ii) above, suggest one suitable safeguard against the threat.

(3 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Taraji and Wema Associates is a registered audit firm and currently the auditor of Shamba Farm Ltd., an agricultural company. During the course of the audit, the managing partner, Alice Wema, attended Shamba Farm Ltd.'s board meetings and assisted in drafting parts of the company's financial statements. A few months after the audit, Shamba Farm Ltd. was declared insolvent due to undisclosed financial liabilities. The shareholders are suing Taraji and Wema Associates for negligence, arguing that the auditors failed in their professional responsibilities.

Required:

(i) Explain **THREE** ethical threats that Taraji and Wema Associates could have faced in their engagement with Shamba Farm Ltd.

(3 marks)

(ii) Analyse **THREE** ways in which Taraji and Wema Associates could be held liable for professional negligence in the context of this case.

(3 marks)

(b) You are part of an external audit team reviewing the inventory records of Kubwa Wholesalers. The client uses a manual stock recording system, and you observed discrepancies between physical stock counts and recorded quantities during your visit to the warehouse.

Required:

Recommend **SIX** appropriate procedures the audit team should perform to obtain sufficient and appropriate audit evidence regarding inventory.

(6 marks)

(c) You are a trainee auditor working on the audit of Urembo Ltd., a medium-sized retail company that sells women's clothes and accessories. During the planning stage of the audit, your audit manager has emphasised the importance of fully understanding the client's business environment and internal controls.

Required:

With reference to International Standard on Auditing (ISA) 315, explain **FOUR** procedures you might perform to obtain an understanding of Urembo Ltd. and identify risks of material misstatement. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Analyse **FOUR** considerations before an auditor can rely on written representations as audit evidence. (4 marks)

(b) Explain the objectives of the following types of audits conducted in the public sector

- (i) Financial audit. (2 marks)
- (ii) Compliance audit. (2 marks)
- (iii) Performance audit. (2 marks)
- (iv) Value for money audit. (2 marks)

(c) Discuss the **FOUR** audit opinions that the auditor could express and their implications on the organisation that the auditor reports on. (8 marks)

(Total: 20 marks)



CPA INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

THURSDAY: 24 April 2025. 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 **SIX** inherent limitations of an audit of historical financial statements. (6 marks)

(b) Describe **SIX** challenges that the Office of the Auditor General encounters in its efforts to deliver on its mandate. (6 marks)

(c) Analyse **FOUR** factors that an external auditor could consider before placing reliance on the work of an internal auditor. (8 marks)

(Total: 20 marks)

QUESTION TWO

You are the audit manager in KK and Associates an audit firm that specialises in the audit of retailers. The firm currently audits Mida Food Co. (MF) a food retailer. MF's main competitor, Rupa Foods Ltd. (RFL) has approached KK and Associates audit firm to act as its auditors. MF is concerned that if KK and Associates audits both companies, then confidential information could pass to RFL.

Ann Muli has been the audit engagement partner for MF for the last eight years. Her daughter Rachel Njoki has just accepted a job offer from MF as a manager. Rachel's employment contract states that if a bonus is to be paid it will be awarded as shares in MF rather than cash.

MF has also offered KK and Associates a 5% bonus on top of the audit fee if this year's audit can be completed three weeks earlier than last year. This is to reduce the demands on the finance director's time as he is busy working on other projects.

Required:

(a) Describe **TWO** safeguards that KK and Associates could apply to manage the conflict of interest that might arise if the firm accepts the appointment by RFL as their external auditors. (2 marks)

(b) Evaluate **FOUR** potential risks to independence in respect of the audit of MF and in each case state the type of threat arising from the risk. (8 marks)

(c) You are the audit senior in charge of the audit of Deni Ltd. Your audit manager has informed you that during the year, a fraud occurred in the wages department of Deni Ltd. A payroll clerk set up fictitious employee accounts and the wages were paid into the clerk's own bank account. This clerk has subsequently left the company, but the audit manager is concerned that additional fraud could have taken place in the wages department.

Required:

Describe **FIVE** procedures which you could undertake during the audit of the wages department as a result of the audit manager's assessment of the increased risk of fraud. (10 marks)

(Total: 20 marks)

QUESTION THREE

(a) Auditors record their work in audit working papers. This includes the audit plan, the work allocation to team members and the record of the audit work done by the audit team. The working papers include copies of draft financial statements and the final audited financial statements.

Required:

(i) Explain who between the auditor and the client:

- Has the right to the working papers. (2 marks)
- Custody of the working papers. (2 marks)

(ii) State the expected retention time of the working papers. (2 marks)

(b) Auditors are required to document their understanding of the client's internal controls. There are various options available for recording the internal control system. Two of these options are narrative notes and internal control questionnaires.

Required:

Describe **TWO** advantages and **TWO** disadvantages to the auditor of:

(i) Narrative notes. (4 marks)

(ii) Internal control questionnaire. (4 marks)

(c) Discuss **THREE** differences between a "review engagement" and an "external audit". (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) During the engagement team meeting for the audit of the 2024 financial statements of Lima Ltd., the engagement partner emphasised to his audit team that special attention needs to be focused on significant risks.

Required:

(i) Explain the term "significant risks". (2 marks)

(ii) Describe **SIX** factors that the auditors could consider to determine whether a risk is significant risk or non-significant. (6 marks)

(b) You have been the partner in charge of the audit of Bora Ltd., a company dealing with the sale of electronic items countrywide. During the year ended 30 September 2024, the company made a profit before tax of Sh.80,000,000.

The following matters were identified by the audit team during the audit:

1. The company has been sued in court for breach of a warranty. The case has been ongoing and is unlikely to be resolved until the year ending September 2025. The estimated legal penalty of losing the case is Sh.40,000,000. The company management has not recognised this figure in the financial statements stating that they have adequate evidence to enable them win the case.
2. There was an attack on the system by a computer virus that resulted to the loss of supporting documents on all non-current assets. The company had not maintained a backup and therefore reconstruction of the data is impossible.
3. The company's goodwill has not been tested for impairment for the last four years. The management feel that testing for impairment is an exercise in futility since the value of impairment is not material. On your team's assessment you discover that impairment is only material to a portion of the financial statements.
4. There has been a loophole in the internal controls over wages and salaries. There are suspicions that there may be ghost workers. Further investigations need to be undertaken to establish the extent of misstatements over wages and salaries. However, no misstatements in the salaries and wages were discovered during the audit.

Required:

For each of the matters raised above, discuss the audit opinion you would issue.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) There are circumstances where auditors may be held responsible for failure to detect errors and frauds depending on certain factors.

Explain **FIVE** factors that determine whether the auditor is responsible for non-detection of errors and frauds
(5 marks)

(b) Kemikali Ltd. manufactures various industrial chemicals. You are the audit supervisor in the firm that audits Kemikali Ltd. At the inventory count at the year-end, you were responsible for work-in-progress (WIP) and were part of the team attending the count as well as the final audit. Work-in-progress constitute partly manufactured chemicals at the year-end, and this balance is material. Kemikali Ltd. values work-in-progress according to percentage of completion and standard costs are then applied to these percentages. During the audit, your team has identified an error in the valuation of work-in-progress, as a number of assumptions contain out of date information. The directors of Kemikali Ltd. have indicated that they do not wish to amend the financial statements.

Required:

Explain the steps the audit firm could now take in relation to the directors' refusal to amend the financial statements.
(5 marks)

(c) In forming his opinion, the auditor should obtain relevant and reliable audit evidence sufficient to enable him draw reasonable conclusions thereon which forms the basis of his opinion.

Required:

Evaluate **FIVE** factors that might influence the judgement of the auditor in regards to sufficiency of audit evidence.
(10 marks)
(Total: 20 marks)



CPA INTERMEDIATE LEVEL
AUDITING AND ASSURANCE

WEDNESDAY: 4 December 2024. 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) In deciding on whether to accept a new audit client or not, the auditor must consider a number of factors. International Standard on Auditing (ISA) 210 “Agreeing on the Terms of Engagement”, further requires that, before commencement of the audit, the auditor should carry out procedures to ensure that the pre-conditions of an audit are present.

Required:

(i) Highlight **SIX** matters to be considered by an auditor before accepting a new audit engagement. (6 marks)

(ii) Describe the **THREE** preconditions of an audit that an auditor must ensure are present before accepting an audit assignment. (6 marks)

(b) Discuss **FOUR** differences between “internal audits” and “external audits”. (8 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the following terms in relation to fraud in an organisation:

(i) Teeming and lading. (2 marks)

(ii) Ghost employees. (2 marks)

(iii) Window dressing. (2 marks)

(b) You are an audit manager at Miheso and Mali Associates, an audit firm. You are planning the audit of Mitambo Ltd., a company that manufactures and distributes smart phones, laptops and their accessories. Mitambo Ltd. has been your audit client for the past 5 years. During the planning of the audit, the following information has come to your attention:

- Employees of Mitambo Ltd. purchase goods from the company at discounted prices. Members of staff at Miheso and Mali Associates have in the previous years been offered the same level of discount as the employees of Mitambo Ltd.
- During the year ended 30 September 2024, the finance director was hospitalised and an audit senior from Miheso and Mali Associates was seconded to the client for four months.
- From review of the correspondence files, you note that the chief accountant of Mitambo Ltd. and one of the partners at Miheso and Mali Associates have known each other for many years. You discover that the chief accountant was very instrumental in the appointment of your audit firm.

Required:

(i) Identify **FOUR** ethical threats which might affect the independence of Miheso and Mali Associates in the audit of Mitambo Ltd. (4 marks)

(ii) For each ethical threat identified in (b) (i) above, recommend how the threat can be mitigated. (4 marks)

(c) Describe **SIX** stages involved in the development of an audit strategy. (6 marks)

(Total: 20 marks)

QUESTION THREE

(a) Usafi Enterprises is an organisation that provides home cleaning services. The organisation's policy is that 50% of the charged fee is paid in advance before the cleaning service is provided and the other 50% is paid after the service has been completed. The customers pay by cheque or mobile money. The cheques are supposed to be delivered by the customers to Usafi Enterprises office during working hours. However, some customers have been paying the cleaners by cash and at times giving cheques to cleaners to deliver to the office on their behalf.

Usafi Enterprises' accountant has noted that the accounts receivable balance in the books has been increasing while revenue collection has been declining in the past few months. The organisation has also lost many customers due to disagreements on payment for services rendered. Usafi Enterprises has approached you as an audit firm to advise them on how they can improve their operations and manage receivables.

Required:

(i) Identify **FOUR** weaknesses in Usafi Enterprises' internal control system. (4 marks)

(ii) Propose **THREE** controls that the management of Usafi Enterprises could implement to address each deficiency. (6 marks)

(b) According to International Standards on Auditing (ISA) 315, "Identifying and Assessing the Risks of Material Misstatement", the auditor should use assertions for classes of transactions, account balances and presentation and disclosure in sufficient detail to form a basis for the assessment of risk of material misstatements.

Required:

Explain **FIVE** assertions relating to:

(i) Account balances. (5 marks)

(ii) Transactions and events. (5 marks)

(Total: 20 marks)

QUESTION FOUR

(a) International Standard on Auditing (ISA) 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment", gives extensive guidance to auditors about audit risk assessment.

Required:

(i) Explain the term "audit risk". (2 marks)

(ii) Describe **THREE** components of audit risk. (6 marks)

(b) Job Juma has recently been declared redundant. He is considering setting up a care home for the elderly, as he is aware of an increasing need for this service with the ageing population. He has identified a large house, which he plans to convert into the care home. Each resident will have a bedroom, there will be a common sitting room and all meals will be provided in a dining room. No long-term nursing care will be provided. The large house is in a poor state of repair and will require considerable structural alterations and repairs to make it suitable for use as a care home for the elderly. This includes purchase of new furniture and fittings, decoration of the whole house and specialised equipment to allow mobility of the clients.

Job Juma and his wife propose to work full time in the business, which he expects to be running six months after the purchase of the house. Job Juma has already obtained some estimates of the conversion costs and information on the income and expected running costs of the care home.

Job Juma has received about Sh.10,500,000 from his redundancy and expects to receive about Sh.17,000,000 from the sale of his house. The owners of the house he proposes to buy are asking for Sh.12,000,000 for it, and Job expects to spend Sh.7,500,000 on conversion. Conversion includes: building work, furnishing, decorations and equipment.

Job would like to obtain additional finance from the bank to undertake this project. He has prepared a draft capital expenditure forecast, profit forecast and cash flow forecast which he has asked you to check before he submits them to the bank.

Required:

Advise Job Juma on **SIX** elements that the bank credit department would verify in the:

(i) Capital expenditure forecast (6 marks)

(ii) Profit forecast (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) The auditing profession has had to adjust to the rapid technological advancements. Several processes and procedures are now carried out using these advancements.

Required:

Analyse how each of the following technologies is used in the auditing profession:

(i) Robotic process automation (RPA). (2 marks)

(ii) Data analytics. (2 marks)

(iii) Distributed ledger technology (DLT). (2 marks)

(b) Borabora Ltd., a manufacturer of fast-moving goods within Nairobi, planned to construct a warehouse in Mombasa to serve as a distribution point for the coast region. The company intended to make a saving on transportation costs by using rail transport to move the finished goods to the coastal warehouse, instead of the traditional road transport.

The chief finance officer of Borabora Ltd., Eric Mambo, recommended Ujenzi. Ltd., a construction company for the contract to construct the warehouse. However, when the contract was signed, Ujenzi Ltd. was not authorised to conduct business. This is because the government had revoked Ujenzi Ltd.'s license indefinitely, based on recent bidding irregularities and failure to observe construction standards. Eric Mambo knew that Ujenzi Ltd.'s license had been revoked yet recommended the company because he was receiving a commission and had some beneficial interest in the company.

The cost of the warehouse was also overstated deliberately to pass some of the money back to Eric Mambo. Eric Mambo recommended an adjustment to the accounting records to make the extra payments appear like transaction fees payable to a consultancy company that he owns.

Required:

Advise the management of Borabora Ltd. on **THREE** illegal activities that may necessitate a forensic investigation in the company. (6 marks)

(c) At the planning stage, the auditor of Kidato Ltd., while assessing the risk of material misstatement came across a disagreement amongst the directors on the going concern status of the company. Some of the directors felt that since the company's bankers were recalling the loan which was the financial base for most of the company's assets, the company might be forced into receivership and liquidation unless they find another financier. The Board of Directors' minutes indicate that the bank manager had already canceled the overdraft facility since Kidato Ltd. was facing challenges in repaying the overdraft on a timely basis. The matter had not been concluded when the financial statements were prepared and despite the assets of the company being slightly higher than liabilities in the statement of financial position, the threat to the going concern is clear.

Required:

Evaluate **FOUR** audit procedures that the auditor could carry out in order to obtain sufficient audit evidence to be able to form an opinion on the going concern status of Kidato Ltd. (8 marks)

(Total: 20 marks)

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CPA INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

WEDNESDAY: 21 August 2024. 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 **FIVE** inherent limitations of an audit. (5 marks)

(b) (i) Explain the term “peer review” as pertains to the audit profession. (2 marks)

(ii) State **THREE** benefits of peer review for the audit profession. (3 marks)

(c) Distinguish between “reasonable assurance engagements” and “limited assurance engagements”. (4 marks)

(d) Enumerate **SIX** contents of an audit engagement letter. (6 marks)

(Total: 20 marks)

QUESTION TWO

(a) The future of auditing in an evolving landscape is being shaped by emerging technologies and changing business practices. Auditors are therefore expected to understand how technology can better their audit processes.

Required:

(i) Describe **FOUR** challenges associated with auditing a computerised information system. (4 marks)

(ii) Explain the concept of “auditing around the computer”. (2 marks)

(iii) Discuss **TWO** reasons why auditing around the computer increases audit risk for the auditor. (4 marks)

(b) The audit engagement reviewer is required to review the audit documentation (working papers) prepared by the audit team.

Required:

(i) In reference to International Standard on Auditing (ISA 230) “Audit documentation”, explain the **TWO** main objectives of preparing audit working papers. (4 marks)

(ii) Discuss **THREE** other purposes that audit documentation serves. (6 marks)

(Total: 20 marks)

QUESTION THREE

(a) Curate Ltd. has been experiencing challenges in its internal audit department with a high staff turnover rate. There are also glaring cases of fraud being identified by the external auditors which the internal auditors had not identified. The chief executive officer has suggested to the board of directors that they should consider outsourcing the internal audit function.

Required:

(i) Advise the board of directors of Curate Ltd. on **FIVE** benefits that could accrue to Curate Ltd. from outsourcing the internal audit function. (10 marks)

(ii) Analyse **FOUR** implications of outsourcing the internal audit function on the work of the external auditor. (4 marks)

(b) You are an auditor at Bima and Wali Associates. You have been approached by your client, Ann Mino, who has recently restructured her medium-sized wholesale business to make it more structured in terms of roles and responsibilities of each employee. Ann Mino has structured the roles as follows:

- (i) **Customer care supervisor:** Responsible for both collection and record maintenance of accounts receivable.
- (ii) **Inventory co-ordinator:** Responsible for purchasing, receiving and storing inventory.
- (iii) **Payroll manager:** Responsible for all payroll matters including personnel records keeping timecards, preparation of payrolls and distribution of payroll cheques.

Required:

Advise Ann Mino on the implication of each of these duties on the internal control system of the business. (6 marks)

(Total: 20 marks)

QUESTION FOUR

Plastiki Ltd. is a company that manufactures various plastic household goods. Kelly Mwenza is an audit supervisor at Kari, Mwari and Associates, the external auditors of Plastiki Ltd. Kelly Mwenza prepared the audit program for the year-end audit of Plastiki Ltd. Kelly held a meeting with her audit manager and was notified of the following issues identified during the audit risk assessment process:

1. Land and buildings: Plastiki Ltd. operate on a policy of revaluing land and buildings once every five years. During the year ended 30 June 2024, Plastiki Ltd. requested an independent valuer to value a number of properties including a warehouse purchased in January 2024. Depreciation is charged on a pro-rata basis per annum.
2. Work-in-progress (WIP): Plastiki Ltd. undertakes continuous production, 24 hours a day, seven days a week. A physical inventory count was undertaken on 30 June 2024. Kelly Mwenza and her team were responsible for the audit of work-in-progress and were part of the team attending the physical inventory count.

Required:

- (a) Advise Kari, Mwari and Associates on **FIVE** factors that they could consider when placing reliance on the work of the independent valuer. (5 marks)
- (b) Describe the substantive procedures Kelly Mwenza performed to obtain sufficient and appropriate audit evidence in relation to:
 - (i) The revaluation of land and buildings and recently purchased warehouse. (6 marks)
 - (ii) The valuation of work-in-progress (WIP). (4 marks)
- (c) (i) Explain the term “detection risk”. (2 marks)
- (ii) Analyse the relationship between detection risk and the other two elements of audit risk; inherent risk and control risk. (3 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Propose **FOUR** matters you would consider when establishing the overall audit strategy for an upcoming external audit. (4 marks)
- (b) In the context of ISA 240 “Auditors responsibility relating to fraud in audit of financial statements”, discuss **FOUR** responsibilities of the auditor in detecting errors, frauds and irregularities in an audit engagement. (8 marks)
- (c) In May 2024, the office building of Daraja Ltd. was damaged by a fire. Many of the company’s accounting records were destroyed before the audit for the year ended 30 June 2024 took place. The company’s financial accountant prepared financial statements for the year ended 30 June 2024 on the basis of estimates and the information he was able to salvage. You were the lead auditor in the audit of Daraja Ltd. and have completed the audit of these financial statements.

Required:

Draft for inclusion in the auditor’s report, a summary appropriate to Daraja Ltd. in the current situation under the following headings:

- Introductory paragraph.
- Opinion.
- Auditor’s responsibility.
- Basis of opinion.

(8 marks)

(Total: 20 marks)



CPA INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

WEDNESDAY: 24 April 2024. 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) Private companies are not required by law to have their financial statements examined by an auditor. However, all public entities are required by law to have their financial statements audited.

Required:

Explain **SIX** reasons why an audit is considered necessary for limited liability companies and other public entities. (6 marks)

(b) Enumerate **FIVE** elements of an assurance engagement. (5 marks)

(c) Explain **THREE** internal control procedures that an organisation should have in place for each of the following:

- (i) Unclaimed wages. (3 marks)
- (ii) Credit sales. (3 marks)
- (iii) Inventory in transit. (3 marks)

(Total: 20 marks)

QUESTION TWO

(a) Joe and Kim Associates, an audit firm, has been the auditor of Pikcha Ltd. for the past five years. The management of Pikcha Ltd. have been searching for a company to offer them tax consultancy services. They recently approached Joe and Kim Associates for these services.

Required:

(i) Enumerate **FOUR** types of tax consultancy services that Joe and Kim Associates might be able to offer Pikcha Ltd. (4 marks)

(ii) Discuss **THREE** possible threats to independence that Joe and Kim Associates might be exposed to by offering tax services to Pikcha Ltd. (6 marks)

(b) Summarise **FIVE** ways in which the management could detect and prevent errors and fraud. (5 marks)

(c) Explain **FIVE** challenges that an auditor could face when performing an audit in a computerised information systems environment. (5 marks)

(Total: 20 marks)

QUESTION THREE

(a) Auditors obtain knowledge about the audit client through the planning process, which also ensures an effective control and review of audit work.

Required:

Summarise **FOUR** ways through which audit planning assists in the conduct of an audit. (4 marks)

(b) Auditors are required to perform risk assessment procedures to provide the basis for identification and assessment of risks of material misstatement at the financial statement assertion levels.

Required:

Analyse **THREE** risk assessment procedures that the auditors might perform.

(6 marks)

(c) Discuss **FIVE** roles played by public sector audits in good governance in public sector entities. (10 marks)

(Total: 20 marks)

QUESTION FOUR

(a) You are the audit manager at Jirani and Associates, Certified Public Accountants. Your firm has been appointed to audit Madawa Ltd., a company that deals with manufacture and distribution of pharmaceutical equipment, for the year ended 31 December 2023. The company has been the main supplier of pharmaceutical equipment in the region. During the last one year, a competitor who is a low-cost producer has emerged and has taken up most of the customers of Madawa Ltd. Pona Ltd., who is the main supplier of raw materials to Madawa Ltd., has been declared bankrupt by a court of law. Due to the stiff competition the company has been facing, the directors have issued a profit warning to the shareholders. During the year ended 31 December 2023, three top level managers resigned. The company has since, not managed to replace them due to the specialist nature of their roles. It is anticipated that a new manufacturing tax of 10% per annum will take effect from 1 July 2024.

Required:

(i) Explain **FIVE** matters that could cast doubt on the going concern of Madawa Ltd.

(5 marks)

(ii) Examine **FIVE** audit procedures your audit firm would perform to assess whether the company is a going concern. (5 marks)

(b) International Standard on Auditing (ISA) 500 - Audit Evidence, requires the auditor to obtain sufficient and appropriate audit evidence to support his conclusions on test of transactions and therefore his report. Appropriate evidence is reliable evidence.

Required:

Describe **FIVE** factors that could influence the reliability of audit evidence.

(5 marks)

(c) In the case of recurring audits, the auditor may decide not to send a new engagement letter or other written agreement each period.

Required:

State **FIVE** factors that might make it appropriate to revise the terms of audit engagement.

(5 marks)

(Total: 20 marks)

QUESTION FIVE

(a) International Standard on Auditing (ISA) 230 - Audit documentation, requires the auditor to maintain all information, records and documents gathered during the audit.

Required:

Analyse **FOUR** matters the auditor could record in the audit working papers during the annual stock take. (4 marks)

(b) Describe **FOUR** types of audits that an internal auditor might conduct. (8 marks)

(c) The directors of Kiatu Ltd., a shoe manufacturing company, have been advised to employ the services of a forensic accountant. This is in an effort to stop rampant cases of theft in the company that involves employees in the production department and finance department. In a few cases, the company has had problems with insurance claims.

Required:

(i) Explain the term “forensic accountant”.

(2 marks)

(ii) Advise the directors on **THREE** expected roles of the forensic accountant in the case of Kiatu Ltd. (6 marks)

(Total: 20 marks)



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)

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)



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 Fruity 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 Fruity 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)



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)



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)

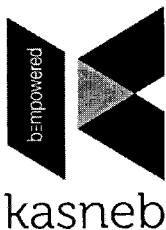
(b) Distinguish between “qualitative risk assessment techniques” and “quantitative risk assessment techniques”. (4 marks)

(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”
Cost			
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>
Accumulated depreciation			
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>-</u>	<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:

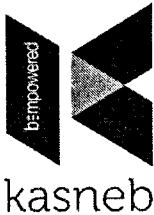
(i) Describe four internal controls that could be present regarding the non-current asset register before you could place reliance on it as a source of audit evidence. (4 marks)

(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 show 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)



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. (5 marks)

(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.

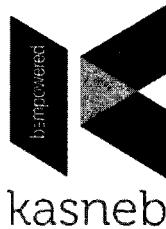
Required:

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 Licensing 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 Licensing 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)

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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)



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:

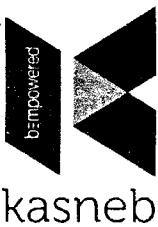
Identify five aspects of the financial statements which the auditor should evaluate.

(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)



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)

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:

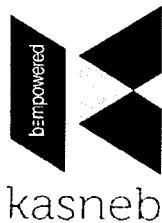
1. Shortly before commencing the final audit of AKZ Ltd., a listed company, a junior staff member on the audit team inherited a substantial number of shares in that company. No action was taken because, although representing a large investment for the staff member concerned, the number of shares were 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 Kijanji 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)

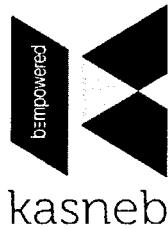
(ii) The internal audit function of an entity should have an internal audit charter approved by the Board to govern its activities:

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)



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)

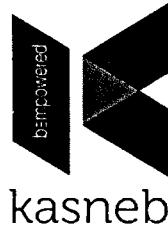
(ii) Software licence review. (2 marks)

(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)



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

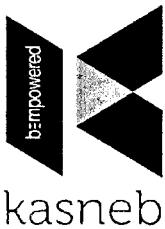
(a) A suitable criteria is the benchmark used to evaluate a subject matter for the purpose of presentation and disclosure.

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)



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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KASNEB

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)

(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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KASNEB

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)

KASNEB

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)

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 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 31December 2015 has just been completed. The following figures have been extracted from the draft financial statements:

	Year ended 31 December	
	2014	2013
	Sh.“000”	Sh.“000”
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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