



CPA PART II SECTION 4
AUDITING AND ASSURANCE

THURSDAY: 29 November 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

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

(Total: 20 marks)

QUESTION TWO

- (a) Auditors should obtain written confirmation of representations from management on matters material to the financial statements.

Required:

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

Required:

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

(Total: 20 marks)

QUESTION THREE

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

Required:

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

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

QUESTION FOUR

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

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

Required:

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

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

Required:

- (i) Explain the purpose of review engagements and how they differ from external audits. (4 marks)
- (ii) Describe the level of assurance provided by external audits and review engagements. (4 marks)

- (c) Explain three ethical threats which might affect the independence of audit practitioners and for each threat, explain how it might be reduced to an acceptable level. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) With reference to International Standard on Auditing (ISA) 520 - "Analytical Procedures", explain four different types of analytical procedures available to the auditor. (8 marks)

- (b) With respect to information technology (IT) audits, explain the following terms:

- (i) Social media risk assessment. (2 marks)
- (ii) Software licence review. (2 marks)
- (iii) IT governance audit. (2 marks)
- (iv) IT risk assessment audit. (2 marks)

- (c) Describe two types of errors that could arise from sampling risk. (4 marks)

(Total: 20 marks)

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