



**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)**
- .....