

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)

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