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CPA PART II SECTION 4

AUDITING AND ASSURANCE

THURSDAY: 20 May 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

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

Required:

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

(Total: 20 marks)

QUESTION TWO

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

Required:

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

(Total: 20 marks)

QUESTION THREE

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

Required:

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

(Total: 20 marks)

QUESTION FOUR

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

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

Required:

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

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

(Total: 20 marks)

QUESTION FIVE

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

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

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

(Total: 20 marks)