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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 Licencing 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 Licencing 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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