



CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 20 August 2025. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

According to International Standard on Auditing (ISA) 550 “Related Parties”, auditors are responsible for identifying, assessing and responding to the risks of material misstatements that may arise from an entity's failure to appropriately account for or disclose related party relationships, transactions or balances. This responsibility exists because financial reporting frameworks establish specific accounting and disclosure requirements for such matters.

Required:

- (a) Discuss **FIVE** audit procedures that an auditor could develop to be relied upon to ascertain the existence of related parties. (10 marks)
- (b) You are the audit manager at Hapa and Pale Associates, a firm of Certified Public Accountants and you are currently reviewing the audit file of Wasafiri Ltd. for the year ended 30 June 2025. Wasafiri Ltd. is engaged in the export of raw coffee to the international market.

During the course of the audit, a junior team member identified several repetitive large payments made by the client to a consulting firm registered in a tax haven. When management was asked to explain the nature and purpose of these payments, they provided only minimal supporting documentation and offered vague explanations, merely stating that the payments were for “market research”.

Required:

- (i) Identify **FIVE** red flags that could indicate the risk of money laundering at Wasafiri Ltd. (5 marks)
 - (ii) As the audit manager responsible for this audit, explain **FIVE** appropriate steps you might take upon receiving this information. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) You are the audit engagement partner of Integrity and Integrity Associate, a firm of Certified Public Accountants. Your firm has launched an aggressive marketing campaign, which includes online advertisements with the assertive message: “We guarantee your company will pass any audit with us by your side”.

In a separate matter, one of your audit clients, Tangaza Holdings Ltd., a family-owned telecommunications company has offered your audit team all-expenses-paid trips to Dubai as a gesture of appreciation for their work during the audit. However, you are aware that Tangaza Holdings Ltd.’s recent press reports have raised concerns about possible regulatory violations in the company’s mobile money operations.

Required:

- (i) Evaluate **THREE** ethical implications of the firm's advertising campaign, with reference to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics and Institute of Public Accountants of Kenya (ICPAK) guidelines on advertising and publicity. (6 marks)
- (ii) Summarise **THREE** ethical threats arising from the client’s gift offer. (3 marks)
- (iii) Recommend **THREE** appropriate safeguards as a response to the threats identified in (a) (ii) above. (3 marks)

- (b) You are the audit manager in Summer and Sammer Associates, a firm of Certified Public Accountants, responsible for planning and executing the group audit of Africom Holdings Ltd. for the year ended 30 June 2025. Africom Holdings Ltd. is a diversified investment holding company with its headquarter in Nairobi, Kenya, with a broad portfolio across East Africa and the Indian Ocean region. The company holds controlling interests in three key subsidiaries located in Uganda, Tanzania and Mauritius. Each of these subsidiaries operates independently, maintaining separate financial reports and engaging their own external auditors.

Africom Holdings Ltd. is listed on the Nairobi Securities Exchange and as such, its consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are subject to regulatory oversight by the Capital Markets Authority of Kenya.

Group structure and operations:

1. **Tanzanian Subsidiary – Africom Tanzania Ltd.**
Operates primarily in the telecom infrastructure sector. It was recently penalised by the Tanzania Foreign Exchange Licensing Authority for breaching local foreign currency repatriation rules. This fine, amounting to a significant sum, has not yet been disclosed in the group's interim financial statements. The subsidiary is audited by a Tanzanian firm that is part of the Summer and Sammer Associates Certified Public Accountants international network.
2. **Ugandan Subsidiary – Africom Uganda Ltd.**
Provides micro-financing and digital payment services to rural communities. The Ugandan component's audit is conducted by a local audit firm not affiliated with the Summer and Sammer Associates Certified Public Accountants international network. You note that during the discussions that the local auditor has historically had limited experience with group reporting and International Financial Reporting Standards (IFRS) compliance.
3. **Mauritius Subsidiary – Africom Mauritius Ltd.**
Functions as the group's financial investment arm and engages in complex derivative trading, including foreign exchange options, interest rate swaps and crypto-index futures. The subsidiary has reported substantial unrealised gains from its derivatives portfolio. The Mauritius operations are subject to oversight by the Mauritius Financial Services Commission (FSC), with stringent regulations on valuation methodologies and disclosure requirements.

Required:

Analyse **FOUR** areas the auditor could consider during the preliminary planning of the Africom Holdings group audit. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain **THREE** differences between “assurance engagements” and “non-assurance engagements”. (6 marks)
- (b) The Companies Act, 2015 (Kenya), along with International Standards on Auditing (ISA), governs the preparation and retention of audit working papers.

With reference to the above statement explain the following:

- (i) Use of audit working papers. (2 marks)
 - (ii) Content of audit working papers. (2 marks)
 - (iii) Retention of audit working papers. (2 marks)
 - (iv) Confidentiality and safeguarding of working papers. (2 marks)
- (c) You are the audit manager in the audit of Fresh Start Ltd. a manufacturing firm, for the year ended 31 March 2025. The final audit for the year is almost complete and your team is reviewing the working papers. The audit senior has raised an issue of a major supplier to the company who fraudulently inflated invoices. This led to a Sh. 200 million overstatement in inventory and payables. Fresh Start Ltd. has sued your audit firm for negligence, breach of contract and statutory liability, arguing:

1. Contractual duty breached:
The auditors failed to detect and report material misstatements despite having an obligation to exercise professional skills and due care (established in contract via the engagement letter).
2. Negligence: (Tort):
Their duty extends to the company (“third-party” in tort) and failure to detect fraud constitutes negligence, causing foreseeable financial loss.
3. Statutory Liability under Companies Act:
Civil Liability: Responsible officers (including auditors) risk damages for misuse of position or breach of trust under Section 206.
Criminal Liability: Under Section 46, making a materially false audit statement with intent to deceive attracts up to 7 years’ imprisonment.

Required:

Discuss the potential legal liabilities of the auditors in relation to each of the claims by Fresh Start. (6 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) You are the audit manager responsible for the audit of Mawega Ltd. a medium-sized technology company that provides software solutions to businesses for the year ended 31 March 2025. The final audit for the year is almost complete and you are reviewing the audit working papers. The following matters have been raised by the audit senior for your attention:

1. **Termination of a major client contract**

Two weeks after the reporting date, Mawega Ltd.’s largest client (which represents 40% of the company’s annual revenue) terminated its contract. The client cited significant data protection concerns as the primary reason for the termination. This client had been a critical source of revenue and the loss could have a material impact on the company’s financial performance going forward.

Management's position

The company has expressed confidence that the company will recover from this setback by securing new clients. However, the company has not yet signed any replacement contracts or secured any new business in the short term.

2. **Short-term loan for payroll obligations**

After the reporting date, the company obtained a short-term loan of Sh.50 million from a local financial institution. The loan was intended to meet payroll obligations for the next two months due to cash flow difficulties. This loan is a temporary measure and the company has expressed that it demonstrates financial resilience, reinforcing their belief that the company is a going concern.

Management’s position

Management is confident that the loan reflects a temporary challenge and that the company will be able to stabilize its financial position shortly. However, the company has not presented a detailed plan on how they intend to address the underlying cash flow issues or repay the loan.

3. **Related party transaction**

During the audit, a related party transaction was noted where the Chief Executive Officer’s (CEO) private company leased equipment to Mawega Ltd. at above-market rates. The nature of the related party relationship was not disclosed in the financial statements and the lease payments appear to be significantly higher than industry standards for similar equipment.

Management’s position

Management has not provided an explanation for the discrepancy in lease terms and has not made any disclosures regarding the related party relationship in the financial statements, asserting that the lease arrangement was made based on mutual agreement with no intention of evading compliance.

Required:

- (i) For each of the matters above, evaluate the implications of the post-reporting date events for the auditor’s assessment of the going concern assumption. (9 marks)
- (ii) Determine whether these events require adjustment or disclosure under International Accounting Standards (IAS) 10, “Events After the Reporting Period”. (3 marks)

(b) Discuss **FOUR** effects of the COVID-19 pandemic on the following areas in audit:

- (i) Audit quality. (2 marks)
 - (ii) Fraud risks. (2 marks)
 - (iii) Remote auditing. (2 marks)
 - (iv) Role of technology. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Evaluate **FIVE** considerations that should be included in the preparation of group reporting instructions to component auditors. (10 marks)
- (b) An agreed-upon procedures engagement is a type of engagement where the auditor is not required to provide assurance. However, certain conditions must be met for the engagement to take place and there is a shared responsibility regarding the performance and outcomes of the procedures.

Required:

Summarise **FIVE** conditions and shared responsibilities involved in an agreed-upon procedures engagement, considering the auditor does not provide assurance. (10 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

THURSDAY: 24 April 2025. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) The integration of blockchain technology and data analytics into auditing processes represents a transformative shift in how audits are conducted, offering a range of benefits from enhanced security to increased efficiency and transparency.

Required:

Evaluate **THREE** applications of data analytics and **THREE** applications of block chain technology in the audit process. (6 marks)

- (b) International Standards on Auditing (ISA) 570 Going Concern, highlights both the auditor's and the management's responsibility with regard to the company's going concern.

Required:

Contrast the responsibility of the management with that of the auditor in the assessment of the going concern of a company. (6 marks)

- (c) You are the audit manager of Kiki and Kiki Associates, a firm of Certified Public Accountants, responsible for the audit of ABC Manufacturing Company for the year ended 31 December 2024. The audit work has been completed and reviewed and the audit report is going to be issued in three days. The following is the summary extract data from the financial statements:

	Sh.
Revenue	150,000,000
Net profit after tax	50,000,000
Total assets	120,000,000

You have just been informed that a resolution has been passed to close one of the factories and relocate the largest factory in the next 6 months. These changes will lead to lay off of staff and the estimated cost of redundancies is Sh.30,000,000. The financial statements have not been amended to reflect the changes.

Required:

- (i) Comment on the implications of the above changes in the financial statements. (2 marks)
- (ii) Describe **FOUR** further audit procedures that you might need to perform. (4 marks)
- (iii) Recommend the actions to be taken by the auditor if the financial statements are not amended. (2 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Summarise **SEVEN** auditor's responsibilities with regard to subsequent events. (7 marks)
- (b) You are the audit manager responsible for the audit of Zambalau Ltd. For the year ended 31 December 2024. The final audit for the year is almost complete and you are reviewing the audit working papers. The draft financial statements recognise profit before tax of Sh.110 million. The following matters have been raised by the audit senior for your attention.

1. In January 2025, one of the major customers of Zambalau Ltd. was declared bankrupt. The customer had a balance of Sh.950,000 which is included in the financial statements under accounts receivable.
2. In December 2024, a case against the company by a competitor, with claims of defamation because of an advertisement that the company placed in the media, is yet to be determined. The company's legal lawyers have estimated the damages that are probable to be Sh.1,000,000.

The following extract from the draft auditor's report has been given to you for your review:

Basis for opinion and disclaimer of opinion

We have performed our audit based on a materiality level of Sh.15 million. Our audit procedures have proven conclusively that trade receivables are materially misstated. The finance director of Zambalau Ltd., John Kigen, has refused to adjust the accounts receivable to write off the uncollectible amount from a significant customer who has been declared bankrupt. Therefore, in our opinion, the financial statements are materially misstated and consequently we express a disclaimer of opinion.

Emphasis of the matter paragraph

Zambalau Ltd. has a current legal case with claims of Sh.1,000,000 from a competitor. In our opinion, this amount should be recognised as a provision of which the financial statements have not provided for.

Required:

- (i) In relation to the ongoing legal claim against Zambalau Ltd., recommend **FIVE** additional audit procedures that may need to be performed. (5 marks)
- (ii) Without redrafting the auditor's report, critique the proposed auditor's report for Zambalau Ltd. for the year ended 31 December 2024. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Hinga Auditors is a medium-sized audit firm that has been operating for over 15 years. The firm has a diverse client base. Kayote Ltd. is a privately owned rapidly growing company based in Kenya with a turnover of over Sh.50,000,000. Kayote Ltd. has expressed interest in Hinga Auditors to audit their books for the year ended 31 March 2025.

The company's management is currently considering having either a full audit or limited assurance review of their financial statements.

Required:

As the audit senior at Hinga auditors:

- (i) Analyse **THREE** differences between an audit of historical financial statements and a limited assurance review. (6 marks)
 - (ii) Discuss **THREE** advantages and **THREE** disadvantages to Kayote Ltd. of having an audit of their historical financial statements as opposed to a limited assurance review. (6 marks)
- (b) You are the audit manager in John Bosco and Associates, a firm of Certified Public Accountants, responsible for the audit of Cider hospital for the year ended 31 March 2025. You recently visited the audit team, who are currently on site performing the field work, to review the work performed and to discuss their progress. During your visit the audit senior brought forward the following matter for your action.

During the review of medical inventories, which included medicines used in a variety of treatment at the hospital, it was noted that a number of medicines had passed their recommended use by dates. These were recorded on an inventory spreadsheet maintained by the financial controller and were easy to spot because they were highlighted in red. One of the audit team members inspected a sample of the inventories in question and confirmed that their use by date had expired. The audit team requested to look at the spreadsheet again, but they were denied access.

The following day, the finance director confronted the audit team accusing them of extending their investigation 'beyond their scope of audit'. He also threatened to remove them from the premises if they continued to ask questions which were not relevant to the audit of the hospital's financial statements. Since then, the audit team was unable to complete their audit of medical inventories. They also noted that the room where the inventories were previously kept had been emptied.

Required:

With reference to the above matter raised by the audit senior, describe:

- (i) **TWO** ethical and professional issues surrounding this matter. (2 marks)
- (ii) **THREE** ways that you could report the non-compliance to the management of Cider hospital. (3 marks)
- (iii) The impact of the matter on the financial statements of Cider Hospital. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Describe **FIVE** areas of focus in an environmental audit. (5 marks)
- (b) International Standards on Auditing (ISA) 315 Identifying and Assessing the Risk of Material Misstatements Through Understanding of The Entity and Its Environment, requires auditors to obtain an understanding of the entity and its environment, including its internal controls.

Required:

Explain **FIVE** reasons why obtaining an understanding of the entity and its environment is important for the auditors. (5 marks)

- (c) Joan and Jim Associates, a local audit firm, were the auditors of Dhawabu Bank Ltd. that recently went under receivership. Dhawabu Bank Ltd. has been sued for negligence by investors who lost up to Sh.40.3 million through a fake corporate bond issuance programme.

The investors claim that the audit firm failed to verify the bank's claim that it operated a Sh.17.6 million account with the Central Bank. However, it turned out that the non-existent bank account played a major role in inflating the banks financial position, thereby enticing investors to pump Sh.40.3 million into the company through a corporate bond issuance programme. The investors lost their money.

Required:

Evaluate Joan and Jim Associates' legal liability in relation to the above claim.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) You have just completed the forensic investigation where some funds were stolen from your client. You are now preparing to present your evidence in court against the identified fraudsters.

Required:

Enumerate **THREE** rules of evidence you will require to observe in court when representing your client. (3 marks)

- (b) International Standards on Auditing (ISA) 720 provides guidance on the auditor's responsibilities relating to other information in documents containing audited financial statements. You are the audit engagement partner in audit of Afucako Ltd. You have an audit trainee assigned to you, who has read the notes taken at your meeting with the managing director of Afucako Ltd. The audit trainee is seeking to know from you about the implications of corporate social responsibility (CSR) expenditure being disclosed as a different figure in the financial statements compared with other information published in the annual report.

Required:

- (i) Explain to the audit trainee **THREE** responsibilities of the auditor in relation to other information in documents containing audited financial statements. (3 marks)
- (ii) Analyse **FOUR** actions that the auditor could take if the figure relating to the CSR expenditure figure disclosed in the financial statements is different from the other information published in the annual report and the management has not amended this even after the matter having been highlighted to them. (4 marks)

- (c) You are a senior auditor in the audit of Cashew Ltd., a wholesale company, for the year ended 31 March 2025. The company intends to determine the quantity and value of each line of inventory at a physical inventory check to be held on 22 February 2025 and then adjust the movements between 23 February 2024 and 30 December 2024. The purchases and sales ledgers will be closed. The company has a fast-moving stock, but operates a satisfactory recording system which incorporates goods inwards and dispatch records.

Required:

Describe **FIVE** audit procedures that you would adopt to satisfy yourself that the company's cut off discipline is adequate.

(10 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 21 August 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) XYZ Auditors is a medium-sized audit firm that has been operating for over 15 years. The firm has a diverse client base that includes small and micro enterprises, non-profit organisations and publicly listed companies. Recently, XYZ Auditors experienced the following issues that indicate deficiencies in the quality management system:

1. The firm faced regulatory scrutiny and legal action due to a significant audit failure that involved a publicly listed client, Beta Ltd. The regulatory scrutiny revealed material misstatements in the financial statements that were not detected during the audit process.
2. Several cases were reported where auditors had close relationships with key personnel of clients' organisations, likely comprising the auditors' independence and objectivity.
3. Meanwhile, many audit staff had not received sufficient training on recent changes in auditing standards and new regulatory requirements.
4. The firm often struggled with resource allocation, resulting to audit staff being overburdened and rushed audits, which led to the quality of audits being compromised.
5. Inconsistencies in audit documentation coupled with lack of sufficient audit evidence to support conclusions reached in several audit engagements was also noted.

The above issues have prompted the firm's top management to consider implementing International Standard on Quality Management 1 (ISQM1) to enhance their quality management system and address these deficiencies.

Required:

Analyse **SIX** components of ISQM1 that XYZ Auditors should focus on to address the issues raised to comply with the standard. (6 marks)

- (b) International Standard on Auditing (ISA) 520, "Analytical Procedures", requires auditors to perform analytical procedures at various stages of audit risk assessment.

Required:

- (i) Explain **FIVE** objectives of performing analytical procedures as part of audit risk assessment. (5 marks)
- (ii) Highlight **THREE** limitations of performing analytical procedures at the planning stage of the final audit. (3 marks)

- (c) You are a senior auditor in the audit of Bayeti Ltd., a medium-sized company which sells a limited range of industrial products. While performing reviews on Bayeti Ltd.'s audit files, you have noted that a number of creditors have withdrawn their financial support to your client and that your client has defaulted on a number of loans. The working papers conclude that the going concern assumption is inappropriate and recommends that a note explaining the cash flow challenges your client is facing be included in the financial statements. However, the directors are reluctant to include the note in the financial statements.

Required:

In each case, discuss **THREE** implications on the audit report if:

- (i) The directors refuse to disclose the note. (3 marks)
- (ii) The directors agree to disclose the note. (3 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Tech Innovators Ltd. is a 2-year-old startup seeking to attract significant venture capital investment. Your firm has been appointed by Tech Innovators Ltd. to conduct a due diligence investigation. You are the partner responsible for the audit of Tech Innovators Ltd. The due diligence process involves reviewing the prospective financial information provided by the client and also a social and environmental audit to assess the company's compliance with sustainability practices.

Required:

- (i) Describe **FIVE** areas of interest you could consider in evaluating the prospective financial information relevant while conducting the due diligence process. (5 marks)
 - (ii) Analyse **FIVE** factors you might consider while undertaking the social and environmental audit. (5 marks)
- (b) You are the Audit Manager of Maharabu and Maharabu Associates, a firm of Certified Public Accountants, responsible for the audit of Madeni Ltd. You are currently reviewing the working papers of the audit for the year ended 31 December 2023. While reviewing the working papers on the payroll with the audit junior, he mentioned the following:

"A number of new employees were hired during the year, with Sh.1.35 million being paid to them. No documentation is available to show that the board had authorised the hiring of additional members of staff. When I questioned the payroll supervisor, she mentioned that she made the additions. She said that no authorisation was required from the board, because the new employees were hired on a temporary basis. Conversely, when making enquiries about the staffing levels from the management, it was stated that no new employees had been taken on board for the year under review".

Other than the tests of controls planned, no other audit work has been performed.

Required:

- (i) Explain the meaning of the term "professional skepticism". (2 marks)
- (ii) In relation to the audit of Madeni Ltd.'s payroll, recommend **FOUR** actions that should be taken by the auditor. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) You are the Audit Manager of Mateo and Associates, a firm of Certified Public Accountants who are the auditors of Miradi Group of Companies Ltd. for the year ended 31 December 2023. Miradi Group of Companies Ltd. is a financial services company. The group has three subsidiaries namely; Kasi Ltd. which provides capital markets services, Taurus Ltd. which provides brokerage, investment and wealth management services and Gold Crowns Ltd. which undertakes asset management and other related services. The year-end is almost complete and the following matters have been raised by the audit senior for your attention:

1. Kasi Ltd. is experiencing going concern problems as noted during this year's audit. Unless it secures the prospected loan from the bank to finance a contract already won, Kasi Ltd. will be unable to continue in operation in the foreseeable future. No disclosure of the going concern problems have been made.

The audit senior has suggested that, due to the seriousness of the situation, the audit opinion should be qualified 'except for'.

2. Taurus Ltd. has changed its accounting policy on buildings from cost model to revaluation model. No disclosure of this change has been given in the financial statements. The carrying amount of the premises in the statement of financial position as at 31 December 2023 is the same as at 31 December 2022. The buildings figure is material in the context of the financial statements. The audit senior is satisfied with the carrying value of the buildings in the statement of financial position.

The audit senior has concluded that a qualification is not required but suggests that attention can be drawn to the change in accounting policy by way of an emphasis of matter paragraph.

3. The directors' report of Gold Crowns Ltd. states that the company's revenues have grown from 1.2 % to 4% in the last one year. However, analytical review procedures revealed that revenues had only grown by 1.65 %. The audit senior is satisfied that the revenue figures are correct.

The audit senior has noted that an unmodified opinion should be given as the audit opinion does not extend to the directors' report.

Required:

For each case mentioned above:

- (i) Comment on the appropriateness or otherwise of the audit senior's proposals regarding the auditors' reports. (3 marks)
 - (ii) Where you disagree, indicate what audit modification (if any) should be given instead. (6 marks)
- (b) You are the audit engagement partner in the audit of Alina Ltd. An audit trainee assigned to you is considering ending his internship programme after he learnt that auditors are potentially liable for both criminal and civil offences in the conduct of an audit.

Required:

- (i) Citing relevant examples in each case, distinguish between auditors "criminal liability" and "civil liability". (6 marks)
- (ii) Highlight **FOUR** conditions that the company must prove under criminal liability in order to succeed against the auditor in damages. (5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Auditor independence is part of the foundation of the auditing profession. An independent, reliable and ethically sound audit gives a company credibility and allows the public to trust in the accuracy of the results and the integrity of the accounting profession.

With reference to the Institute of Certified Public Accountants of Kenya (ICPAK) ethical guidelines, justify **FIVE** reasons why professional independence is considered important to the auditor. (5 marks)

- (b) You are a senior auditor in the audit of Jasiri Ltd., a medium sized manufacturing company. The audit of the financial statements for the year ended 30 June 2024 is almost complete and you are reviewing the audit files for the period. The following issues have prompted the senior auditor to call for a meeting with the client's top management to be held in a week's time:
- 1. There were questions concerning the accuracy of the depreciation charged in the financial statements and a preliminary investigation revealed that the computerised accounting system had failed to compute depreciation of equipment correctly resulting to an overstatement of the depreciation value by Sh.780,975. The book value of the equipment had been overstated by Sh.1,128,340. The equipment value for the year ended 30 June 2024 was Sh.7,135,725.
 - 2. At the beginning of the year 2024, the company had issued a loan to Sarah Hagoi, one of the members of the top management, amounting to Sh.500,000. On further examination of the records, it was discovered that the loan had not been disclosed in the financial statements because it was considered immaterial.
 - 3. During the year ended 30 June 2024, the company made a reduction on its provision for customer warranties recognised in the financial statements. During the past two years, the provision has been made at the rate of 10% of sales for three months. The management has however decided to reduce it to 5% on the claims that the quality assurance processes had improved and therefore customer warranty claims were likely to reduce. Further investigations however revealed that warranty claims have by far remained the same as in previous periods.

Required:

- (i) Discuss how the auditor would be expected to treat each scenario mentioned above for the purpose of reporting. (9 marks)
- (ii) Propose how you would treat each scenario mentioned above in the auditors report assuming the management of Jasiri Ltd. does not correct the misstatements. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Discuss the audit supervisor's responsibilities in relation to supervision of the audit assistants work during the audit of financial statements. (4 marks)
- (b) In the context of audit assurance engagements, describe how "attestation engagements" differ from "direct reporting engagements". (4 marks)
- (c) Artificial intelligence (AI) is often described as 'an evolving technology' that is equipping computer systems with something akin to human intelligence.

Required:

With reference to the above statement, argue **TWO** cases for and **TWO** cases against the use of artificial intelligence in the audit practice. (4 marks)

- (d) Evaluate **FOUR** differences between "forensic audit" and "historical audit" of financial statements. (8 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 24 April 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) You are the audit manager of Gabriel and Moses Associates, a firm of Certified Public Accountants, responsible for the audit of Saforer Ltd. The draft financial statements reported a profit of Sh.13,000,000 for the year ended 31 December 2023. The audit for the year-end is almost complete and the following matters have been raised by the audit senior for your attention:
1. On 2 November 2023, a major customer went into receivership. The balance owing from the customer was Sh.2,800,000 as at 31 December 2023. This amount has been included in the accounts receivable figure in the year-end financial statements.
 2. A former employee sued Saforer Ltd. for unfair dismissal during the month of December 2023. The company's lawyers estimate that damages amounting to Sh.65,000 are probably payable. A note has been included under the notes to the accounts describing the legal claim and the estimated damages. However, no adjustment has been made to the financial statements to recognise the probable loss.

After discussing the above matters with the management of Saforer Ltd, the managers decided not to adjust their financial statements. The audit senior then drafted the audit report. The following is an extract of the audit report:

Basis for opinion and disclaimer of opinion

We have performed our audit based on a materiality level of Sh.1,650,000. Our audit procedures have confirmed conclusively that trade receivables are materially misstated. The Finance Director, Philip Majuto, has refused to make an adjustment to write off a material trade receivable balance. Therefore, in our opinion, the financial statements of Saforer Ltd. are materially misstated and we therefore express a disclaimer of opinion.

Emphasis of matter paragraph

Saforer Ltd. is facing a legal claim for Sh.65,000 from a former employee. In our opinion this amount should be recognised as a provision in the financial statements of which this has not been done. We draw our attention to this breach of International Financial Reporting Standards (IFRSs).

Required:

Using the proposed audit report extract for the year ended 31 December 2023, evaluate **FIVE** matters that are not correctly presented in the report. (10 marks)

- (b) You are an audit manager in Koki and Kioko Associates, a firm of Certified Public Accountants with five offices and 14 partners. 70% of the clients of Koki and Kioko Associates are audit clients and 30% are clients that Koki and Kioko provides with taxation services, accounting services and business advisory services. The firm is exploring ways of expanding business to boost its revenue. The business development manager at Koki and Kioko Associates has come up with the following two proposals to increase brand visibility and attract new clients:
- (i) An advertisement can be placed in two National Newspapers to attract new clients. The draft advertisement given to you reads "Koki and Kioko Associates is the largest and the most professional accountancy and audit services provider in the country. We offer a wide range of services in addition to audit which are guaranteed to improve your business efficiency and save on tax. If you are dissatisfied with your auditor, we can offer a second opinion on the report that has been issued. For all new clients we have an introductory offer of 30% discount when both audit and other services are provided. Our rates are approved by the Institute of Certified Public Accountants of Kenya (ICPAK)".

- (ii) A new experienced partner in the banking sector has joined Koki and Kioko Associates. The business development manager has proposed that the partner should specialise in offering corporate finance services to clients. Specifically, the partner should advise the clients on how to raise finance through debt and would negotiate with the client's bank or the finance provider on behalf of the client. The fee charged for this service will depend on the client obtaining finance.

Required:

For each of the proposals given by the business development manager, advise the partners at Koki and Kioko Associates on **FIVE** potential ethical and professional issues that could arise. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain **THREE** steps in the process of conducting a forensic audit. (6 marks)
- (b) Describe **EIGHT** matters highlighted by International Standard on Auditing (ISA) 210 to which an audit engagement letter might make reference. (8 marks)
- (c) According to International Standard on Auditing (ISA) 550, "Related Parties", certain relationships, such as parent and subsidiary, investor and investee may be clearly evident. However, determining the existence of other related party relationships requires the application of specific audit procedures. The auditor could also devise detailed procedures intended to provide guidance for identifying material transactions with parties known to be related and for identifying material transactions that may be indicative of the existence of previously undetermined relationships.

Required:

Suggest **SIX** audit procedures that could be relied upon to ascertain the existence of related parties. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Thermotech Boilers is an engineering company specialising in designing, fabricating, supplying, installing and servicing of boilers, incinerators and steam systems. The company has eight production plants in different parts of the country. The production process is capital intensive and requires a broad range of plant and equipment.

The finance director is responsible for the preparation of a detailed annual budget for property, plant and equipment (PPE) which is based on a five-year budget and approved by the board of directors after consultation with the audit committee. Once the budget is approved by the board it is held in a computer file, which is the basis of any purchase order. When equipment is delivered to the company, a pre-numbered goods received note (GRN) is raised and a copy is sent to the accounting and finance department. This note is used to update the PPE budget to reflect the movement. The equipment is carefully inspected by the production personnel and tested if operating properly. An operational certificate is prepared by the production department and is used by the accounting and finance department together with the GRN to check against the purchase invoice when it is received. At the same time as the purchase invoice enters the purchases system, the computerised PPE register is updated. Access to the PPE register is restricted to the personnel in the accounting and finance department. On a regular basis throughout the year, the PPE register is compared to plant and equipment on site by the accounting personnel using identification numbers in the register and permanently marked on to each item in the factory. The internal audit department also tests on a sample basis the operation of the system from the budget preparation to entry in the PPE register. Internal audit staff also compare a sample of entries in the PPE register with the equipment in the factories.

As part of your work as external auditors, you have reviewed the PPE audit programme of the internal auditors and come to the conclusion that the basis of their testing is a representative sample of purchases invoices.

Required:

- (i) Identify **THREE** strengths in Thermotech Boilers control environment in the area of PPE and explain how each of the strengths reduces the control risk. (6 marks)
- (ii) Citing **FOUR** reasons, explain why testing of a representative sample of purchases invoices to prove completeness of PPE records is not sufficient. (4 marks)
- (b) When auditing consolidated financial statements, the auditor pays close attention to accounting policies as they have a significant impact on the presentation and disclosure of financial information.

Required:

Discuss **FIVE** areas of interest by an auditor in relation to the accounting policies related to consolidated financial statements. (10 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) You are the audit engagement partner in the audit of Cologne Ltd. You have an audit trainee assigned to you who has read the notes taken at your meeting with the managing director of Cologne Ltd. The audit trainee is seeking to know from you the implications of corporate social responsibility (CSR) expenditure being disclosed as a different figure in the financial statements compared with other information published in the annual report.

Required:

Describe **FOUR** actions that the auditor could take if the figure relating to the CSR expenditure disclosed in the financial statements is different from the other information published in the annual report and the management has not amended this even after the matter having been highlighted to them. (4 marks)

- (b) Discuss **FIVE** factors that might have led to increased litigation against auditors. (10 marks)
- (c) International Standard on Auditing (ISA) 570, "Going Concern", provides examples of events that individually or collectively might cast significant doubt on the going concern assumption.

Required:

Summarise **SIX** events that individually or collectively might cast significant doubt on the going concern of an organisation. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The anti-money laundering responsibility of accountants has become more significant in recent years. This is due to increased organised crime activities, making it necessary for governments around the world to initiate and implement actions aimed at preventing money laundering activities.

Required:

- (i) Explain the term "money laundering". (2 marks)
- (ii) Using illustrations, describe **FOUR** money laundering offences, including those which could be committed by an accountant. (4 marks)
- (b) Bizmogul Ltd., a manufacturer of tyres, is an audit client of Weste and Associates, a firm of Certified Public Accountants. The financial year of Bizmogul Ltd. ended on 30 June 2023. The audit report and the financial statements were to be signed on 14 September 2023. The following additional information on two material events were brought to the attention of the auditor:

Event 1 – Occurred on 15 July 2023

A new type of tyre innovated by Bizmogul was found to be defective and hence unsafe for use. No sales had been made as the product was scheduled to be launched towards the end of September 2023. The company had an insurance cover for inventories. The affected inventory was estimated to be worth Sh.1,500,000 and was included in the finished goods as at 30 June 2023. The insurers estimated the affected inventory to be worth Sh.500,000. The insurance company did not want to pay for the loss in the value of inventory as the company's inventory was under insured.

Event 2 – Occurred on 8 August 2023

The equipment used for vulcanisation of rubber got damaged. Leakage of harmful gas into the atmosphere occurred. The environmental agency is investigating the extent of the emission and the breach of environmental legislation arising thereof.

Required:

For each of the events, Event 1 and Event 2:

- (i) Explain whether the event is adjusting or non-adjusting according to International Accounting Standard (IAS) 10, "Events after the Reporting Period". (4 marks)
- (ii) Discuss the auditor's responsibility and the audit procedures that should be carried out. (6 marks)

- (iii) Assume that the date is 30 September 2023, and the financial statements and the audit report have been signed. The annual general meeting is to take place on 25 October 2023. The environmental agency has issued a report stating that Bizmogul Ltd. is in breach of environment regulations and a fine of Sh.2,000,000 will be imposed on the company. The amount is material to the financial statements.

Required:

Discuss **FOUR** additional audit procedures that might need to be performed with respect to the fine.
(4 marks)

(Total: 20 marks)

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0728776317 FOR ANSWERS



CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 6 December 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) You are the Audit Manager of Baraka and Company LLP, who are the auditors of Miradi Ltd. for the year ended 30 June 2023. The company has net assets of Sh.150 million. The audit has been completed but there is a matter that has not yet been resolved on depreciation of buildings. The directors of Miradi Ltd. have resolved that depreciation on buildings will not be provided for in the financial statements. The buildings were acquired in the year 2020 and no depreciation has been provided since.

Required:

- (i) Describe **SIX** additional audit procedures and actions that you could take with respect to the above matter. (6 marks)
- (ii) Assume that, according to your workings, the depreciation charge on the buildings for the year ended 30 June 2023 should be Sh.4,200,000 based on the straight line method of depreciation at an annual rate of 5%.

Required:

Discuss the implications of the above on the financial statements, clearly indicating its effect on the audit report. (8 marks)

- (b) Explain **SIX** audit risks associated with the audit of financial instruments. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) The following is an extract from a speech presented in a recent professional forum:

“In the private sector, going concern is an area of interest to users of financial statements. Shareholders and lenders wish to know that a business will continue into the foreseeable future before they can make investment or lending decisions.

The going concern concept in the public sector differs from that in the private sector. This is because most public bodies, whether government departments, devolved administrations, local public bodies or national funds have a statutory existence that makes technical insolvency almost impossible.

Despite that, stakeholders in the public sector still have an interest in knowing whether these institutions are financially sustainable.”

Required:

In the context of the above statement, discuss **EIGHT** factors that an auditor would consider in determining the going concern assumption of a public entity. (8 marks)

- (b) Describe **FOUR** procedures that an auditor might perform to identify subsequent events occurring after the financial year end in a company. (4 marks)
- (c) Your audit firm, KKCO LLP, has been the auditor of Express Ltd., a leading online retailer that was established a few years ago. At inception, the company had an average delivery time of a week, but has since grown to an average delivery time of between one and five days. The company started with three employees and has grown to 1,000 employees including a 150 customer service team who are available 7 days a week.

It has emerged that an employee stole Sh.20 million by manipulating vendor payment records pointing to the risk of fraud facing their trading platforms.

Required:

Prepare a proposal to the directors of Express Ltd. explaining:

- (i) The need for an internal audit function in the company. (4 marks)
- (ii) The benefits of outsourcing the internal audit function. (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Compumax Ltd. is one of your audit clients for the year ended 30 June 2023. The company has followed generally accepted accounting principles and had a conservative approach to recognising revenue from its software application sales. Revenue was recognised only when the product was delivered to the customer.

Due to increased competition leading to a declining market share, the Chief Executive Officer (CEO) of the company has put pressure on the Chief Finance Officer (CFO) to find ways to improve the company's financial performance and boost revenue numbers. In reacting to the pressure, the CFO decided that the new policy will be that revenue from software application sales could be recognised as soon as the contract was signed, regardless of the product's actual delivery to the customer. The CFO did not disclose the change in policy. With the new policy, the company started recognising revenue from software application sales immediately after contract signing, artificially inflating the company's revenue figures. This allowed the company to present a more favourable financial status, potentially increasing the share price and attracting new investors.

Required:

With reference to the above scenario:

- (i) Describe **THREE** circumstances under which a change in accounting policy is permissible. (3 marks)
 - (ii) Summarise **THREE** disclosures that could be made in the financial statements regarding the change in accounting policy. (3 marks)
 - (iii) Discuss **FIVE** audit procedures that are necessary where an entity has changed an accounting policy. (10 marks)
- (b) The question on whether a change constitutes a change in policy or a change in estimate has been a major source of discussion among accountants and auditors.

Required:

Distinguish between a "change in accounting estimate" and a "change in accounting policy". (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) During the audit of the financial statements of WX Company Ltd. for the year ended 31 December 2022, the auditors realised that new information that had not been accounted for when the management prepared the financial statements had come to their notice as follows:

1. A court case in which a customer had sued the company for goods that got lost in transit from one of the company's stores was decided against the company. Although the company had made a provision for a refund of the deposit paid on the goods, the court also awarded the customer the costs of the suit and general damages. The total amount payable now exceeds the provision.
2. A customer who owed the company a substantial amount of money and had been having problems paying has had to close business after his bank, from which he had obtained a loan, petitioned for liquidation of the business. Although he had invested the bank loan in a building project, the building had stalled before completion. The materials purchased from WX Ltd. had already been used in the project which the bank has attached as a collateral for their loan. WX Ltd. may never be paid the balance on this account.
3. Due to the rapid fluctuations in the foreign exchange rate, the directors feel that some of the inventory purchased earlier would not be replaceable if sold on the basis of their initial import cost and have suggested a revaluation of the inventory as a way of safeguarding the business from possible losses.

Required:

In each of the situations explained above, discuss the auditor's advice to the management of WX Company Ltd. in order to minimise the risk of material misstatement resulting from these events. (6 marks)

- (b) In conducting the audit of historical financial statements, the auditor's objective is to obtain sufficient appropriate audit evidence on which he forms an opinion about the financial statements as a whole and report that opinion to the shareholders.

Required:

Describe the auditor's objectives when undertaking:

- (i) An examination of prospective financial information. (3 marks)
- (ii) A financial due diligence assignment. (3 marks)
- (c) To succeed in business in the modern world, every company must consider investing in some form of Information Technology (IT). The companies that do not have their own systems still have to protect themselves from cyber criminals whenever they use computer systems even for simple communication within and without the organisation. To ensure the security of this computerised information, companies have had to invest in controls that ensure protection and integrity of their data. IT general controls are the most common controls because they are capable of preventing data theft, stop unauthorised access, reduce operational disruption and stop data breaches.

Required:

- (i) Explain how the IT general controls protect the company and its information systems from risk. (4 marks)
- (ii) Explain the best practice for implementing IT general controls. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Solar Power Limited (SPL), an international company, sells solar panels subject to a warranty of one year. Included in the statement of financial position of SPL is a warranty provision of Sh.100,000,000. The director who owns 70% of the shares in the company is the one who estimates the cost of repairing defective solar panels reported by dissatisfied customers. The estimate from the director forms the basis of the provision.

This is your first audit of SPL whose turnover in the previous year was Sh.10 billion compared to Sh.15 billion this year.

Required:

Explain the audit procedures that you would perform during the year in respect to the estimated warranty provision included in the statement of financial position for the current year. (8 marks)

- (b) (i) Explain **TWO** challenges that a small audit firm might face in implementing quality control procedures, recommending a measure that could be taken to overcome each challenge. (4 marks)
- (ii) Describe **FOUR** quality control procedures that are applicable to an audit engagement. (8 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 23 August 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) CMP Ltd. is a production company that employs fifty workers. The company has the following payroll procedures:
1. The factory foreman interviews applicants and on the basis of the interview either hires or rejects them. When applicants are hired, they fill in an employees withholding exemption certificate (W-4 form) and forward it to the foreman. The foreman indicates the hourly rate of pay for the new employee in the W-4 form and then forwards it to a payroll clerk as notice that the worker has been employed. The foreman verbally advises the payroll department of any adjustments to the hourly rate of pay.
 2. A supply of blank time cards is kept in a box near the entrance to the factory. Each worker takes a time card on Monday morning, fills in his name and notes in pencil their daily arrival and departure times. At the end of the week, the workers drop the time cards in a box near the factory door.
 3. Each Monday morning, the completed time cards are taken from the box by a payroll clerk. One of the payroll clerks then records the payroll transactions using a computer system which captures all information for the payroll journal as calculated by the clerk and automatically updates the employees earnings records and general ledger. Employees are automatically removed from the payroll when they fail to return in a time card.
 4. The payroll cheques are manually signed by the chief accountant and given to the foreman. The foreman distributes the cheques to the employees and arranges for the delivery of the cheques to those who are absent. The payroll bank account is reconciled by the chief accountant, who also prepares the various payroll tax reports.

Required:

Discuss **SIX** deficiencies in CMP Ltd.'s internal controls with the associated risk for each deficiency. (12 marks)

- (b) You are the auditor of Flowermint Ltd., a company engaged in growing and exporting flowers. Assume that when you arrived at your client's office on 11 January 2023 to begin the audit for the year ended 31 December 2022, you discovered that the client had been drawing cheques as the creditors invoices became due but not necessarily mailing them. Because of a working capital shortage, some cheques may have been held for two or three weeks.

The client informs you that unmailed cheques amounting to Sh.27,600,000 were on hand as at 31 December 2022. He states that these December 2022 dated cheques had been entered in the cash disbursements book and charged to the respective creditors accounts in December because the cheques were prenumbered. Heavy sales collections permitted him to mail the cheques before your arrival.

The client wishes to adjust the cash balance and accounts payable as at 31 December 2022 by Sh.27,600,000 because the cash account had a credit balance. The client is also reluctant to reflect an overdraft in the financial statements.

Required:

- (i) Prepare a detailed audit program indicating the procedures you would use to satisfy yourself of the accuracy of the cash at bank balances on the client's financial statements. (5 marks)
- (ii) Discuss the propriety or otherwise of reversing the indicated amount of outstanding cheques as at 31 December 2022. (3 marks)

(Total: 20 marks)

QUESTION TWO

- (a) An Audit Committee is established by a Board to provide an independent oversight of the organisation's system of internal control and financial reporting.

Describe **FIVE** specific roles and responsibilities of an Audit Committee.

(10 marks)

- (b) Discuss **FIVE** types of audit opinions, specifying the circumstances under which each opinion may be ideal.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) As an audit practitioner, you have been invited by your local accountancy institute to provide insights to aspiring accountants on audit engagements, review of financial statements and the distinction between these two engagements.

In the context of the above, prepare your explanatory notes on the following:

- (i) Purpose of review engagements in relation to financial statements.

(3 marks)

- (ii) **THREE** features that distinguish review engagements from audit engagements in relation to financial statements.

(6 marks)

- (iii) The main focus of reviews on:

- Value for money audits.

(3 marks)

- Social and environmental audits.

(3 marks)

- (b) The following is an extract from a leading journal in auditing:

“The main responsibility of auditors is to report to the members on whether the financial statements of the company show a ‘true and fair view’ or ‘present fairly’ the financial position. Of course the report should consider whether management have kept proper accounting records and complied with recognised accounting framework. Responsibilities also applies when problems happen”.

In the context of the above statement, describe **FIVE** practical situations in which auditors may be held liable.

(5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) According to the International Federation of Accountants (IFAC):

“Skepticism is not just at the heart of auditing, it is in the heart of most auditors, a fact that is not obvious to outsiders given the various calls for auditors to exercise more skepticism, particularly when the pressures of deadlines and budgets are brought to bear and doing the right thing becomes more of a challenge”.

Other experts have gone further to postulate that professional skepticism has three elements; attributes, mindset and action.

Required:

- (i) Explain your understanding of each of the **THREE** elements of professional skepticism identified above.

(6 marks)

- (ii) Describe any **THREE** auditable areas in which professional skepticism requires to be exercised. (3 marks)

- (b) (i) Explain the **THREE** components of audit risk.

(3 marks)

- (ii) Analyse **FOUR** audit risk procedures that you would employ in a high-risk audit, identifying the sources of information under each procedure.

(8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Exlink Commercial Bank is a mid-size bank with a large pool of customers seeking credit. The bank's credit activities mainly comprise the following:
1. Origination and disbursement.
 2. Monitoring.
 3. Collection.

Required:

As the lead auditor of the bank, prepare a checklist of the key internal controls that you would expect under each of the three functions above. (12 marks)

- (b) The Government of your country has recently introduced performance contracting in the public sector with the objective of improving service delivery to the public. This has been largely achieved by ensuring the top-level managers are accountable for results and ensuring that resources are focused on attainment of key national policy priorities of the government.

Your audit firm has recently won a tender to audit the reliability of feedback provided by state corporations on achievement of performance contracting targets.

Required:

Describe the key audit procedures you would undertake to achieve the above audit objective.

(8 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 26 April 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) As the partner in charge of the internal quality review and control envisaged by International Standard on Quality Management (ISQCM) 1, you are required to prepare a brief for training the engagement team in your firm.

Required:

In light of the above statement:

- (i) Explain the difference between “assurance” and “non-assurance” services as provided by external auditors. (4 marks)
 - (ii) Describe the work of the partner charged with the responsibility of driving the quality agenda in external audits. (4 marks)
 - (iii) Discuss **FOUR** principal tenets of ISQM 1. (4 marks)
- (b) Describe the following audits and their relevance in modern audit practice:
- (i) Environmental audit. (4 marks)
 - (ii) Forensic audits. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) You are responsible for the audit of Spheres Ltd. and are currently reviewing the working papers of the audit for the year ended 31 December 2022. In the working papers dealing with payroll, the audit junior has commented as follows:

“A number of new employees have been added to the company’s payroll during the year, with combined payments of Sh.1.35 million being made to them. There does not appear to be any authorisation for these additions. When I questioned the payroll supervisor who made the additions, he said that no authorisation was needed because the new employees were hired on a temporary basis. Conversely, when making enquiries about the staffing levels from the management, it was stated that no new employees have been taken on this year. Other than the tests of controls planned, no other audit work has been performed”.

Required:

- (i) Explain the meaning of the term “professional skepticism”. (2 marks)
 - (ii) In relation to the audit of Spheres Ltd.’s payroll, recommend further actions that should be taken by the auditor. (6 marks)
- (b) You are the manager responsible for the audit of four audit clients of M & Associates, a firm of CPAs. The year end in each case is 31 December 2022. You are currently reviewing the audit working paper files and the audit seniors’ recommendations for the auditors’ reports.

Required:

For each of the cases below, comment on the appropriateness or otherwise of the proposition of the audit senior regarding the auditors' reports. Where you disagree, indicate what audit modification (if any) should be given instead.

Details are as follows:

1. C Ltd. is experiencing going concern problems as noted during this year's audit. Unless it secures the prospected loan from the bank to finance a contract already won, C Ltd. will likely not continue operating in the foreseeable future. No disclosure of the going concern problems has been made.

The audit senior has suggested that, due to the seriousness of the situation, the audit opinion must at least be qualified 'except for'. (4 marks)

2. P Ltd. has changed its accounting policy on premises from cost model to revaluation model. No disclosure of this change has been given in the financial statements. The carrying amount of the premises in the statement of financial position as at 31 December 2022 is the same as at 31 December 2021. The premises figure is material in the context of the financial statements. The audit senior is satisfied with the carrying value of the premises in the statement of financial position.

The audit senior has concluded that a qualification is not required but suggests that attention should be drawn to the change by way of an emphasis of matter paragraph. (4 marks)

3. The directors' report of AC Ltd. states that the company's revenue has grown from 1.2 % to 4% in the last one year. However, analytical review procedures showed that revenues had only grown by 1.65%. The audit senior is satisfied that the revenue figures are correct.

The audit senior has noted that an unmodified opinion should be given as the audit opinion does not extend to the directors' report. (4 marks)

(Total: 20 marks)

QUESTION THREE

You are the manager in-charge of the audit of Maridadi Fashions Ltd., a private company dealing in the import and sale of fashion wear. The company plans to seek a public quotation for its shares and is required to prepare a prospectus which must incorporate a report by the auditors of the company.

The directors intend to include a profit forecast in the prospectus. You have been approached by the securities exchange to report on the bases and calculations for the forecast.

Required:

- (a) Explain the preliminary considerations that you would take into account before you accept responsibility for reporting on the profit forecast. (6 marks)
- (b) Discuss the specific audit procedures that you would perform to ensure that the profit forecast is not misleading. (10 marks)
- (c) Describe the matters that you would include in your report. (4 marks)

(Total: 20 marks)

QUESTION FOUR

Lavenda Group has been a client of your Audit firm for several years. The group of companies specialises in production and sale of health food products. You are a senior audit manager responsible for the audit of the Lavenda Group. The group companies all have a financial year ended 31 December 2022. Your firm audits all components of the group with the exception of P Ltd. which was acquired during the year.

You are currently planning the final audit of the consolidated financial statements. Information about several matters relevant to the group audit is given below. These matters are all potentially material to the consolidated financial statements. None of the companies in the group is listed.

Lavenda Ltd.

This is a non-trading parent company, which wholly owns three subsidiaries: D Ltd., S Ltd. and P Ltd. all of which are involved with the core manufacturing and marketing operations of the group. This year, the directors decided to diversify the group's activities in order to reduce risk exposure. Non-controlling interests representing long-term investments have been made in two companies. In the consolidated statement of financial position, these investments are accounted for as associates, as Lavenda Ltd. is able to exert significant influence over the companies. As part of their remuneration, the directors of Lavenda Ltd. receive a bonus based on the profit before tax of the group. In April 2022, the group finance director resigned from office after a disagreement with the chief executive officer over changes to accounting estimates. A new group finance director is yet to be appointed.

D Ltd.

This company mills, blends, packages and distributes healthy flours and natural spices. During the year, the factory was extended by the self-construction of a new processing area, at a total cost of Sh.8 million which is material in the context of the company's financial statements as well as the Group. A loan of Sh.8 million with an interest rate of 5% per annum had been taken out to finance the construction. The construction took 6 months to complete and the new processing area was ready for use on 1 August 2022. The processing area began to be used on 1 November 2022. The estimated useful life of the extended factory is 15 years.

S Ltd.

This company's operations involve the manufacture and distribution of peanut butter and other bread spreads. S Ltd. is involved in a court case with a competitor, F Foods Ltd., which alleges that a design used in S Ltd. printed material copies one of F Foods Ltd.'s designs which are protected under copyright. A verbal confirmation was made from S Ltd. lawyers that a claim of Sh.2.5 million has been made against S Ltd., which is probable to be paid. S Ltd. has not made a provision.

P Ltd.

This company is a new and significant acquisition, purchased in June 2022. It is located in North Africa and has been purchased to supply peanuts and other ingredients for the goods produced by S Ltd. It is now supplying approximately half of the ingredients used in S Ltd. The country in which P Ltd. is situated has not adopted International Financial Reporting Standards, meaning that P Ltd.'s financial statements are prepared using local accounting rules. The company uses local currency to measure and present its financial statements.

P Ltd. is audited by a small local firm, ABC & Co, also based in North Africa. Assume that Audit regulations in that country are not based on International Standards on Auditing.

Required:

- (a) Evaluate the principal audit risks to be considered in your planning of the final audit of the consolidated financial statements for the year ended 31 December 2022. (6 marks)
- (b) Describe the procedures that should be performed in deciding the extent of reliance to be placed on the work of ABC & Co. (10 marks)
- (c) Recommend the principal audit procedures that should be performed on the classification of non-controlling investments made by Lavenda Ltd. (4 marks)

(Total: 20 marks)

QUESTION FIVE

Your firm is the current auditor of Safi Limited, a renowned wholesale business. You have been asked to carry out audit checks on the cut off and verifying inventory quantities at the year end.

The company maintains the details of the inventory quantities on its computer. These inventory quantities are updated from the goods received notes and the sales invoices. The company carries out the inventory count each month when all the fast moving and high value inventory is counted, and a third of the remaining inventory is counted in rotation so that all the items are counted at least four times a year. You attended the inventory count on the second Sunday of October 2022 and a further inventory count on the first Sunday of November 2022.

The company's year-end was 31 October 2022 and the inventory quantities as at that date as shown by the computer had been used in the valuation of the inventory. No inventory was counted at the year end.

Required:

- (a) Describe the principal matters that you should have checked and the matters you should have recorded when you attended the company's inventory count on the second Sunday of October 2022. (8 marks)
- (b) Explain the checks you will perform in confirming the sales and purchases cut offs have been correctly carried out at the year end. (4 marks)
- (c) Discuss the work you will carry out to check that the book inventory records have been correctly updated from the inventory count. (4 marks)
- (d) Summarise the work you will carry out to satisfy yourself that the inventory quantities used in the relation of the inventory at the year end is correct. (4 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 7 December 2022. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) The role of auditors in non-financial audits is increasingly coming under scrutiny. One such area of interest is in “green” audits, also referred to as environmental audits. A recent article in a leading accountancy journal highlighted this fact as below:

“In many jurisdictions, corporate auditors are not under any obligation to report to stakeholders of the entities on the impact of social and environmental issues. It is therefore important that regulators of the accountancy profession set prescribed and dedicated standards on social and environmental issues for auditors”.

Noting the above trends, the accountancy regulatory body in your country has engaged you to develop a discussion paper to guide policy on conduct of environmental audits by auditors.

Required:

Draft a discussion paper focusing on the following, clearly elaborating on each:

- (i) **FOUR** limitations of financial accounting in reflecting the social and environmental impact of organisations. (4 marks)
 - (ii) **THREE** objectives of environmental audits. (3 marks)
 - (iii) **SIX** information components that should be disclosed in an environmental status report. (6 marks)
- (b)
- (i) Describe **THREE** circumstances under which a professional auditor may reveal confidential information relating to the client. (3 marks)
 - (ii) “Independence threats” are likely to affect an auditor’s ability to comply with the fundamental principles of ethics.

Required:

With relevant examples, justify the above statement.

(4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) During a recent seminar on adapting the audit approach to emerging technological changes, a presenter made the following statement:

“To ensure a successful audit of internet/mobile banking applications, the audit team must understand the business environment in which they are operating and the prevailing conditions such as regulatory requirements, business requirements and stakeholders’ needs. The audit team needs to put together a robust internet/mobile banking and electronic payment application audit program”.

Required:

With reference to the above statement, discuss **FOUR** areas of the internet/mobile banking applications and supporting information technology (IT) infrastructure that should be reviewed to confirm the adequacy of controls and ensure security of the applications. (8 marks)

- (b) Analyse **FOUR** ways in which auditors might reduce the risk of professional liability in their dealings with clients. (8 marks)
 - (c) In the context of audit peer reviews:
 - (i) Distinguish between a “systems review” and an “engagement review”. (2 marks)
 - (ii) Citing reasons, explain the importance of peer review. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

Jua Kali Motors Ltd. is a vehicle repair shop founded some years ago by Ms Faulu who owns all of the shares apart from a qualifying share held by her husband and co-director. She runs the workshop with the help of a foreman, five mechanics and a clerk cum typist. A quotation is issued for all jobs and about 80% of the work is on insurance accident claims. The insurance companies require typed, pre-numbered quotations and invoices for insurance work. For the very large claims and occasionally for smaller claims, the insurance companies bring in their own assessors to inspect the vehicles before authorising the repairs. Private work procedures are less formal and customers are required to pay before collecting their vehicles. Small stocks of parts and service material are held, but most parts are ordered as required and accounts maintained with spare parts suppliers.

Your firm of Certified Public Accountants prepares and audits the accounts and provides tax and other advice to Faulu Motors.

Required:

- (a) Discuss the audit procedures that you would perform to assess the internal controls operations and ultimately the reliability of financial reports. (10 marks)
 - (b)
 - (i) Citing **FOUR** reasons, justify to Ms. Faulu on why her company should continue to engage an auditor annually for audit of the business. (8 marks)
 - (ii) Suggest an alternative to a full audit that Jua Kali Motors Ltd. could consider. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

Achievers Holdings Ltd. is a non-trading holding company with several subsidiaries within East Africa. The company is based in Nairobi with investment holdings ranging from 75% to 100% in several subsidiary companies.

You are the audit manager responsible for the audit of the group accounts. One subsidiary company operating in Rwanda is audited by your firm through a branch office in Kigali. The other subsidiaries in Tanzania and Uganda are audited by other audit firms based in the respective countries.

Assume that the financial year end of Achievers Holdings Ltd. is 30 June, but the subsidiary companies based in Uganda and Rwanda are engaged in highly seasonal businesses, and have 31 March as their financial year end. The subsidiary company in Tanzania was acquired during the year ended 30 June 2022.

Required:

- (a) Describe the evidence you would expect to obtain in your review of the audit work undertaken in Rwanda, Uganda and Tanzania. (8 marks)
- (b) Following the completion of the subsidiary companies audits, discuss the matters that you would address in your review of the consolidated financial statements of Achievers Holdings Ltd. for the year ended 30 June 2022, with specific focus on:
 - (i) General issues touching on consolidated accounts. (6 marks)
 - (ii) Audit issues relating to subsidiaries with different year ends. (3 marks)
 - (iii) Audit issues relating to the newly acquired subsidiary in Tanzania. (3 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Describe **TWO** risks that an auditor could face in the audit of each the following items:

- (i) Related party transactions. (2 marks)
- (ii) Construction contracts. (2 marks)
- (iii) Impairment. (2 marks)
- (iv) Contingent liabilities. (2 marks)

(b) You are the auditor of Saidia Development Trust (SDT), a not-for-profit entity supporting charitable activities. SDT has three major donors one of whom contributes over 80% of the entity's budget.

The major donor has placed a condition that operating cost must not exceed 10% of the total budget. Funding from each of the donors is designated and restricted to specific projects. In some instances, donor funds have not been disbursed in time making it necessary for SDT to seek for bank overdrafts to continue meeting fixed costs and ongoing projects. The Executive Director has requested you not to mention the loans in the financial statements or management letter as the donors may raise concerns. Furthermore, the overdraft has been fully repaid by period end.

Two employees have sued SDT for wrongful dismissal and claimed Sh.10 million. In order to demonstrate to the courts that SDT does not have money to meet such a claim, Sh.11 million was withdrawn from the entity's account and banked in the Executive Director's personal account. The director is not ready to give you his bank statement as he claims it is personal.

In an effort to reflect that SDT is not overly reliant on the major donor, a material amount has been included as "other income". This constitutes cash injections by the Executive Director from his own sources. In order to meet the 10% operating cost requirements, actual operating costs are understated materially by crediting them and debiting the director's loan account.

Most expenses are paid by cash even though the SDT's policy is that amounts beyond Sh.15,000 should be paid by cheque. To achieve this, two petty cash floats are maintained, one by the receptionist which is subject to stringent controls and general cash maintained by the Executive Director where no cash count is ever done and no independent control is exercised.

Required:

Prepare a memorandum to the non-executive directors of SDT detailing issues noted, their implications and how to correct them. (12 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 3 August 2022. Morning paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

The Basel Core Principles for Effective Banking Supervision, “Risk Management Processes” require that banks and banking groups must have comprehensive risk management processes, including Board and senior management oversight to identify, evaluate, monitor and control/mitigate all material risks and further to assess their overall capital adequacy in relation to their risk profile.

Required:

- (a) With reference to the above statements, discuss six components of an effective risk management programme for banks and similar institutions from an audit perspective. (12 marks)
- (b) Describe the specific responsibilities of the Board in overseeing an institution’s strategic risk management process. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Radar Ltd. is a large private company that organises conferences, meetings and celebrations for other companies. The company was set up ten years ago by S and J who are the majority shareholders. The company employs over 300 staff in its 25 offices.

Your firm, XYZ CPA, where you are the Manager - Business Advisory, has been hired to provide internal audit services to Radar Ltd. In discussing with S, you discover that there is a small audit team headed by W, a recently qualified accountant. Before heading the internal audit, W was a junior finance manager in the company. Members of the internal audit team at Radar Ltd. would be redeployed to the finance department once XYZ CPA starts provision of the internal audit services.

S has briefed you of many instances where management policies were ignored. In addition, J has recently discovered a fraud in one office whereby an accounts manager was authorising payments of invoices received from fictitious suppliers, with the payment being channelled to the accounts manager’s personal bank account.

Required:

- (i) Evaluate the benefits to Radar Ltd. from outsourcing its internal audit function. (3 marks)
- (ii) Explain the potential impact on the external audit of Radar Ltd. if the internal audit function is outsourced. (3 marks)
- (iii) Recommend procedures that could be used by XYZ CPA to quantify any financial loss suffered by Radar Ltd. due to the above fraud. (3 marks)
- (iv) Compare responsibilities of external auditors and of management in relation to the prevention and detection of fraud. (3 marks)
- (v) Assess two benefits and one limitation that may arise from setting up an audit committee in Radar Ltd. (3 marks)

- (b) You are in charge of the audit of Sawala Ltd. and are planning the audit of financial statements for the year ended 31 December 2021. Sawala Ltd. has suffered decline in sales and profits in the last two years mainly due to loss of key customers. Many of Sawala Ltd.'s non-current assets are impaired in value and substantial receivables have been written off in the last six months.

Sawala Ltd's. management have decided to restructure the business by reducing the manufacturing capacity by 75% and investing in new technology to make operations more efficient and widen the variety of components produced. Sawala Ltd. has applied for a bank loan to finance the restructuring. Without the loan, Sawala Ltd. is unlikely to restructure successfully raising doubts on its ability to continue as a going concern.

Your firm has been asked to advise on forecasts and projections that the bank would need to decide on the finance requested. Management has also requested your firm to attend a meeting with the bank during which the forecasts would be discussed.

Required:

Advise on ethical and other implications to guide your firm on the request to provide advice on forecasts and attend the meeting with the bank. (5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Annalisa Keya is the financial controller of a leading church organisation in the country. Recently, the chief cashier in the church was suspended for misappropriating cash amounting to Sh.2 million over a period of six months.

The church's Board of Deacons and the Finance Committee are of the view that though Annalisa Keya was not directly responsible for the loss, she failed by not discovering the fraud in time. They have recommended her suspension and possible dismissal. There are also worries that, because of the high cash volumes transacted in the church, the risk of errors and fraud in cash management is significant.

Annalisa has suggested to the Board of Deacons and Finance Committee to engage an independent auditor to carry out an investigation.

Your audit firm has been invited to a preparatory meeting of the Board of Deacons as the potential auditor for the assignment.

Required:

- (i) Highlight the issues you would raise during this meeting regarding the entire investigation process. (4 marks)
- (ii) Describe the essential principles that you must observe to conduct an effective investigation. (4 marks)
- (iii) Recommend an effective internal control system for cash handled by the church. (4 marks)
- (b) Describe the factors to be considered by an auditor in assessing the inherent risk in an organisation. (4 marks)
- (c) Explain how audit files are archived and retrieved for a large organisation. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Bandari Furniture Ltd. manufactures a wide range of domestic furniture. The main components of the furniture items are wood for the frames, foam filling for the cushions and fabric for the covering. The company's annual turnover is Sh.700 million while its stock at the end of the year ended 31 December 2021 was Sh.400 million. You attended the stock take and you were happy with the accuracy of the exercise.

The cost of raw materials and direct labour are calculated using the standard costing system while overheads are computed from the company's financial accounting records as a percentage of direct labour cost.

Required:

- (i) Describe the audit work that you would perform to check the standard cost per unit of a line of finished stock. Comment on how accurate this standard cost has to be. (3 marks)
- (ii) Explain the work that you would perform to confirm that the variances are being determined correctly. (3 marks)

- (iii) Comment on the overheads that you would include in the value of stock and those that you would not include, citing relevant examples. (2 marks)
 - (iv) State two variances that you would include and those that you would exclude when adjusting the value of stock from standard cost to actual cost. (2 marks)
- (b) You are the auditor of Zambezi Ltd., a manufacturer of handcrafts. 40% of the sales are exported to a foreign country. You are about to commence the audit of the accounts for the year ended 31 October 2021. Account receivables are included in the statement of financial position at the year end net of Sh.3,000,000 debt provision (5%) at Sh.57 million. In the past audits, there has been a poor response to the trade receivables circularisation and a decision has been taken not to circularise or circulate them this year. In an attempt to reduce the exposure to the foreign currency, Zambezi Ltd. sells 50% of the foreign currency trade receivable forwards.

Required:

- (i) Explain the substantive procedures that you would perform as an auditor to verify the accuracy of account receivables. (4 marks)
 - (ii) Describe the audit tests you would carry out in order to form an opinion on the doubtful debts provision and the action you would take if you concluded that it was materially misstated. (4 marks)
 - (iii) State what adjustment, if any, you would make to the foreign currency account receivables on the basis that they have all been recorded at the actual exchange rate ruling on the date of sale. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain each of the following concepts, clearly indicating its impact on the work of auditors:
- (i) Environmental audits. (3 marks)
 - (ii) Social reporting. (3 marks)
 - (iii) Audit disengagement. (3 marks)
 - (iv) Value for money audits. (3 marks)
- (b) Safari Company Limited is a manufacturing company that was established five years ago. The company has attained tremendous growth despite the stiff competition from other companies engaged in the manufacture of similar products. The company's management is concerned with reducing the harm that may result from fines and the compensation in case of violation of the environmental laws and regulations. At the same time, to maintain its market share, the company intends to give support to the community through social responsibility activities.

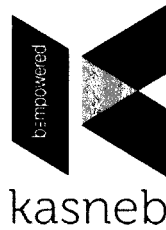
Required:

You have been appointed to evaluate the environmental aspects and social support of the company.

Describe the audit procedures that you would perform in order to advise accordingly. (8 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

WEDNESDAY: 6 April 2022. Morning paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) The regulatory body for professional accountants in your country has approached you to draft professional standards of practice in conduct and reporting on attestation engagements. These are engagements in which a professional accountant reports on the reliability of information, usually of a financial nature, presented by one party to another to assist the latter make inferences on the former.

Required:

With reference to International Standards on Auditing (ISAs) and any other acceptable standards of global practice, prepare a proposal paper on the required standards of professional practice. (12 marks)

- (b) In the context of international regulation of the auditing profession, discuss the role of the International Forum of Independent Audit Regulators (IFIAR). (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) During the last year's audit of Mila General Stores (MGS), a large retail chain of shops, you observe that commissions amount to about 25% of total sales, which is higher than in previous years. Further investigation reveals that the sector in which the shop operates on average has larger sales commissions than MGS with significant variation in rates depending on the product sold.

At the time a sale is made, the sales person records his commission rate and the total amount of the commission on the office copy of the sales invoice. When sales are keyed into the computer, a debit to sales commission expense account and a credit to accrued sales commission account are also recorded. As part of recording the sales and sales commission expense, the accounts receivable clerk verifies the prices, quantities, commission rates and all calculations on the sales invoices. Both the accounts receivable and the sales persons' commission master files are updated when the sales and sales commission are recorded. On the 15th day after the end of each month, the sales person is paid for the preceding month's sales commission.

Required:

- (i) An audit program to verify sales commission expense, assuming that no audit tests have been conducted in any audit area to this point. (6 marks)
- (ii) An audit program to verify accrued sales commission at the end of the year, assuming that the tests you designed in (a) (i) above resulted in no significant misstatements. (6 marks)
- (b) You are a newly appointed internal auditor of Zito Ltd., a company that is currently experiencing financial difficulties. As a condition for obtaining bank loans, the company management has agreed to maintain certain liquidity ratios, asset to liquidity ratios and gross profit margins.

The draft financial statements for the current period appear to show that the company has not succeeded in complying with some of the set targets. The profit figures are significantly affected by the calculation of bad debts and depreciation charges. There has been a suggestion to the effect that these could be changed in order to meet the bank's lending conditions.

You are informed that there is a real danger that if the bank withdraws its funding, the company would become insolvent and thus will have to cease trading. The Chief Accountant has asked you to sign certain internal records that have been altered in order to show the bank that the set targets have been met.

Required:

Analyse the above scenario and explain the courses of action that you would take.

(8 marks)

(Total: 20 marks)

QUESTION THREE

(a) The following information relates to Vitenge Supplies Ltd.:

1. At monthly intervals, the purchases ledger clerk of the company, Anna Mbole, lists the ledger balances. She then compares them with the file of suppliers' statements. Those statements that agree with the list of the balances are extracted and placed in the file. Those that do not agree with the listed balances are left in the original file.
2. Anna Mbole then prepares a list of the payments for all the suppliers who have sent the statements as follows:
 - (i) Where the statement agrees with the balance, the statement is attached to the list.
 - (ii) Where the statement disagrees with the balance, Anne Mbole computes a round sum amount (which is slightly less than the balance on the ledger) and enters this amount on the list of the payments. She then leaves the statement in the file.
3. The list of the payments is then passed to Peter Dawa the assistant accountant, who writes out the cheques. The cheques, lists and the statements are then sent to Lucia Kawa, the Finance Director, who signs them after checking against the statements (where these are attached) and the list of balances.
4. The cheques are then passed to the Managing Director, William Sinai, the other signatory, who signs the cheques and sends them back to Peter Dawa, who then posts them to the parties concerned.
5. The auditors of the company have previously made comments regarding the poor quality of the accounting controls.

Required:

- (i) Isolate the areas which could have attracted adverse comments from the auditors. (4 marks)
 - (ii) Design a programme for the substantive tests which would provide reassurance that the cheque payments are not made improperly to creditors. (5 marks)
 - (iii) Describe the controls to be instituted over the custody and authorisation of the cheque payments. (3 marks)
- (b) Discuss the procedures and nature of reporting adopted by auditors when engaged in compilation engagements of the prospective clients. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

Jamaa Manufacturing Ltd. is planning to install an automated sales accounting system. The company's management has requested for your advice on certain matters relating to the proposed sales accounting system.

Required:

- (a) Describe the controls that should be incorporated in the new system before it:
 - (i) Issues an order confirmation to a customer. (3 marks)
 - (ii) Raises a dispatch note and authorises dispatch of goods to the customer. (3 marks)
 - (b) Describe the controls which should be exercised over:
 - (i) Changing customer details including adding new customers, amending their details and deleting customers. (3 marks)
 - (ii) Changing customer credit limits. (2 marks)
 - (iii) Changing the selling prices of products. (3 marks)
 - (c) Describe:
 - (i) The credit control criteria that the automated sales accounting system should use to decide whether to prevent dispatches to customers. (3 marks)
 - (ii) The manual procedures which should be exercised before the system allows goods to be dispatched to a company where the computer's criteria rejects dispatch of the goods. (3 marks)
- (Total: 20 marks)**

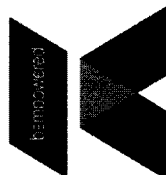
QUESTION FIVE

- (a) Describe the circumstances that could lead to each of the following audit opinions and the implications of each opinion:
- (i) Adverse opinion. (2 marks)
 - (ii) Emphasis of matter. (2 marks)
 - (iii) Disclaimer of opinion. (2 marks)
 - (iv) 'Except for' opinion. (2 marks)
- (b) Discuss the factors that could influence an auditor's decision in the following matters:
- (i) Whether to apply statistical or judgemental sampling technique. (2 marks)
 - (ii) Determining the size of the sample to be used for testing. (4 marks)
- (c) Explain the peculiar risks that an auditor faces when auditing and expressing an opinion on the following:
- (i) Holding companies, subsidiaries and associates. (2 marks)
 - (ii) Related party transactions. (2 marks)
 - (iii) Branches and segments. (2 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED AUDITING AND ASSURANCE

FRIDAY: 17 December 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) One of the practices that has gained momentum in the recent past is remote auditing, particularly following the outbreak of the COVID-19 pandemic.

Required:

As an auditor, describe how you would approach remote auditing from a practical perspective. (6 marks)

- (b) Management audit calls for an inter-disciplinary approach considering the scope and focus of the audit.

Required:

Discuss the above statement with particular reference to:

- (i) Steps involved in a management audit. (3 marks)
 - (ii) Management functions appraised. (4 marks)
 - (iii) Audit techniques adopted. (3 marks)
- (c) Explore the potential threats to an auditor's independence. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) You are the Audit Manager at Milele Associates, a firm of Certified Public Accountants. You are assigning staff to the final audit of Melrose Ltd., a company listed on the Securities Exchange, for the year ended 30 September 2021. You are aware of the following critical matters:

- Melrose Ltd. has recently issued a profit warning. The company has announced that significant synergies expected from the acquisition of Atalanta Ltd., a former competitor company, have not materialised. Moreover, it has emerged that some of Atalanta Ltd.'s assets are significantly impaired.
- Your firm's Corporate Finance Department assisted by two audit trainees carried out due diligence on behalf of Melrose Ltd. before the purchase of Atalanta Ltd. was completed in September 2020.

Required:

Comment on the ethical and other professional issues raised by the above matter and their implications, if any, for staffing the final audit of Melrose Ltd. for the year ended 30 September 2021. (6 marks)

- (b) You are the Audit Manager at ABC & Co., a firm of Certified Public Accountants. Currently, you are responsible for the audit of two companies, L Ltd. and M Ltd. The year end for each of the companies is 30 June. You are currently reviewing the audit working papers, files and the audit seniors' recommendations for the auditors' reports. The details are as follows:

- (i) L Ltd. is a subsidiary of K Ltd. Serious going concern problems have been noted during this year's audit. L Ltd. will be unable to trade for the foreseeable future unless it continues to receive financial support from the parent company. L Ltd. has received a letter of support (comfort letter) from K Ltd.

The Audit Senior has suggested that due to the seriousness of the situation, the audit opinion must at least be qualified "except for".

- (ii) M Ltd. has changed its accounting policy for goodwill during the year from amortisation over its estimated useful life to annual impairment testing. No disclosure of this change has been made in the financial statements. The carrying amount of goodwill in the statement of financial position as at 30 June 2021 is the same as at 30 June 2020 as management's impairment test shows that it is not impaired.

The Audit Senior has concluded that a qualification is not required but suggests that attention could be drawn to the change by way of an emphasis of matter paragraph.

Required:

Discuss, with justification, whether you would agree with the Audit Senior's conclusions in each of the cases above. (10 marks)

- (c) Explain the case against the rotation of auditors by a client. (Hint: Approach from both the auditor's and client's perspective). (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) An audit strategy sets the direction, timing and scope of an audit.

Required:

In the context of the statement above:

- (i) Explore the salient features that distinguish a systems-based approach from a risk-based approach to an audit. (4 marks)

- (ii) Describe the factors that influence the choice of an audit strategy. (4 marks)

- (b) There is a strong inter-connection between a financial audit and an operational audit. However, differences also exist.

Required:

Discuss the above statement, clearly bringing out any differences between the two types of audit. (4 marks)

- (c) The International Standards on Auditing (ISAs) address various professional standards of practice for auditors. In particular, ISA 240 - "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" requires the auditor to focus on areas where there is risk of material misstatements due to fraud, including management fraud.

Required:

Explain the actions that an auditor should take to effectively deal with issues of fraud during an audit. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Audit committees play a critical role in the governance structure of institutions and in the protection of public interest.

Required:

Discuss the key responsibilities of an audit committee. (8 marks)

- (b) Money laundering continues to gain currency in spite of efforts by countries and international financial institutions to combat it.

Required:

Summarise some of the measures undertaken by various countries and international financial institutions to control and prevent money laundering. (6 marks)

- (c) Describe some of the areas that an audit review should address. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain the main rules of evidence in court proceedings relating to audit issues. (8 marks)

- (b) Discuss each of the following matters as applied in auditing and assurance:

- (i) Due diligence investigations. (4 marks)

- (ii) Role of auditors in receiverships and liquidations. (4 marks)

- (iii) Integrated reporting. (4 marks)

(Total: 20 marks)



CPA PART III SECTION 6

ADVANCED AUDITING AND ASSURANCE

FRIDAY: 3 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) Maisha Bora Welfare Group was established in the year 2015. The organisation's aim is to provide support to children from disadvantaged backgrounds who wish to take part in athletics.

The organisation has a detailed constitution which explains how the income of the welfare group can be spent. The constitution also notes that administration expenses should not exceed 10% of income in any one year.

The income of the organisation is derived wholly from voluntary donations. The sources of income include:

- Cash collected by volunteers seeking donations from the public.
- Cheques sent to the welfare group's head office.
- Donations from generous individuals. Some of these donations have specific clauses attached to them indicating that the initial amount donated (capital) cannot be spent and that the interest income from the donation must be spent on specific activities, for example, provision of sports shoes.

Required:

In the context of the above information:

- (i) Explain the term "audit risk", clearly indicating three elements of risk that contribute to total audit risk. (4 marks)
- (ii) Explore the areas of inherent risk in Maisha Bora Welfare Group, explaining the effect of each of these risks on the audit approach to be adopted. (6 marks)
- (b) Suggest the procedures that an auditor should perform in order to gain understanding of a client's business. (4 marks)
- (c) You are a senior audit manager in M and M Associates Certified Public Accountants. Recently, you were assigned specific responsibility for undertaking annual reviews of existing clients. The following situation has arisen in connection with one of the clients, Reward Ltd., an exporter of specialist equipment.

The Chief Executive Officer of Reward Ltd. has requested for advice on the accounting treatment and disclosure of payments being made for security consultancy services. The payments, which aim to ensure that consignments are not impounded in the destination country of a major customer, may be material to the financial statements for the year ending 31 December 2021. Reward Ltd. does not treat these payments as tax deductible.

Required:

Explore the ethical and other professional issues raised by the above matter and indicate the action, if any, that your firm should now take. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) You are a manager at Dundee Associates, a firm of Certified Public Accountants. Your specific responsibility is for the quality of audits.

Your firm was appointed the auditor of Taka Ltd., a provider of waste management services, in January 2020. You have visited the audit team at Taka Ltd.'s head office. The team comprises an audit senior, an audit assistant and two trainees.

Taka Ltd.'s draft accounts for the year ended 31 December 2019 show revenues of Sh.118 million (2018 Sh.8.3 million) and total assets of Sh.40 million (2018 Sh.30 million). During your visit, a review of the audit working papers revealed the following:

- (i) On the planning checklist, the audit senior has crossed through the analytical procedures section and written "Not applicable-New client". The audit planning checklist has not been signed off as having been reviewed.
- (ii) The audit senior last visited Taka Ltd.'s office when the final audit commenced two weeks earlier on 1 February 2020. The audit senior has since completed the audit of tangible non-current assets including property and service equipment which amount to Sh.8 million as at 31 December 2019 (2018 Sh.8 million). The audit senior spends most of his time at your firm's office and is currently allocated three other assignments in addition to the audit of Taka Ltd.

Required:

Discuss the implications of the two findings above for Dundee Associate's quality control policies and procedures. (8 marks)

- (b) Explain the role of support/comfort letters as evidence in the audit of group financial statements. (6 marks)
- (c) Discuss how horizontal groups (non-consolidated entities under common control) affect the scope of an audit and the audit work undertaken. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Following the outbreak of the Covid-19 pandemic with its associated uncertainty and crisis management requirements, internal audit is now in an interesting position to guide organisations through a completely new landscape of risk. It is evident that new trends have emerged in internal audit that will change the way audit is perceived for years to come.

Required:

In the context of the above statement, explain how the following recent trends are transforming the audit landscape:

- (i) Artificial intelligence. (3 marks)
- (ii) Soft controls and company culture. (3 marks)
- (b) Describe how the following factors are posing risks to internal audit in the new dispensation:
 - (i) Cyber security in the remote world of work. (3 marks)
 - (ii) Changing regulatory risks. (3 marks)
- (c) Most auditing practitioners agree that legal liability is part of the risk associated with their work. However, they argue that practising auditors may also take specific action to minimise their liability.

Required:

Evaluate the measures that auditors may take to minimise the possibilities of legal liability.

(8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) You are the auditor of Benrose Ltd. which undertakes construction contracts on behalf of its clients.

Last year, you qualified the auditor's report due to lack of evidence to support the client's schedules of estimated costs to completion. During the year, a quantity surveyor joined the management team of Benrose Ltd. His main role is to prepare year end schedules, by contract, of total costs to completion. This includes:

- Direct costs incurred to the balance sheet date.
- Attributable overheads.
- Estimated costs to completion.

You are satisfied that the quantity surveyor is appropriately qualified and experienced.

Required:

- (i) Explain the nature and extent of the reliance which you would seek to place on the work of the quantity surveyor. (4 marks)
 - (ii) Describe the audit work you would perform in respect of total costs to completion. (8 marks)
 - (b) Describe the audit work that you would carry out in respect of the following:
 - (i) Segment information. (3 marks)
 - (ii) Transfer of shares. (3 marks)
 - (iii) Dividends. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Discuss the nature and purpose of the following:
 - (i) E-Commerce audits. (3 marks)
 - (ii) Value for money audits. (3 marks)
 - (iii) Social audits. (3 marks)
 - (b) Discuss the practical challenges that professional bodies might face in trying to conduct audit quality assurance (AQA) activities in member audit firms. (6 marks)
 - (c) Identify the practical steps that auditors might take to ensure independence and objectivity in their work. (5 marks)
- (Total: 20 marks)**
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