



CPA INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

WEDNESDAY: 23 August 2023. Afternoon 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) International Standard on Auditing (ISA) 300 Planning an Audit of Financial Statements, provides guidance to assist auditors in planning an audit.

Required:

In the context of International Standard on Auditing (ISA) 300, summarise **FIVE** benefits of audit planning. (5 marks)

- (b) In the recent past, many market regulators and organisations have adopted the risk-based audit model.

Required:

Explain **THREE** advantages and **TWO** disadvantages of the above model. (5 marks)

- (c) Your firm has been auditing Arial Bank which is listed in the securities exchange. As a policy, you are required to evaluate the independence of the firm and all the team members involved in the audit engagement. The audit team is assessing its independence in relation to Arial Bank's audit.

Required:

Discuss **FIVE** factors that might compromise independence of the team members involved in this audit. (10 marks)
(Total: 20 marks)

QUESTION TWO

- (a) Brenda Tuli is the petty cashier for Bahari Ltd. On 20 July 2023, Brenda was short of cash for her travel for the week. She took out a small amount of cash from the petty cash at work to cover her fare. She had intended to return this amount at the end of the month, as soon as she was paid. Brenda had not obtained permission from her supervisor to pick the cash and she forgot to replace the cash when she received her salary.

Required:

(i) Indicate the type of fraud that Brenda Tuli was involved in. (1 mark)

(ii) Explain **FOUR** steps that Bahari Ltd. could take in order to improve controls over petty cash. (4 marks)

- (b) Kilimo Bora Ltd. is an agricultural company that mainly deals with the export of horticultural products. The company's Board of Directors would like the company to be listed in the Securities Exchange. Kilimo Bora Ltd. recently established an internal audit department to assist the board of directors in enhancing good corporate governance in the company. One of the resolutions was the creation of an audit committee of the board. The Managing Director understands the principles of good corporate governance with respect to internal audit. However, the other board members lack sufficient understanding of corporate governance and International Standards Auditing (ISA).

Required:

(i) Discuss **FIVE** areas that the internal audit department could assist the board of directors of Kilimo Bora Ltd. in fulfilling their obligations under the principles of good corporate governance. (10 marks)

(ii) Explain **FIVE** benefits that Kilimo Bora Ltd. would yield upon constituting an audit committee of the board. (5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Sheila Limo is the audit senior of K and R Associates. She is the one responsible for the audit of Kula Ltd, a manufacturing company. Sheila has called for a meeting with her junior auditors to discuss how they will go about carrying out tests of control and substantive tests on salaries and wages of Kula Ltd.

Required:

- (i) Distinguish between “tests of control” and “substantive tests”. (4 marks)
- (ii) Summarise **FOUR** tests of control in relation to salaries and wages of Kula Ltd. (4 marks)
- (iii) Propose **THREE** substantive tests that Sheila Limo might perform on salaries and wages of Kula Ltd. (6 marks)
- (b) Your new client Haraka Upesi Ltd. assembles and sells tuk tuks in the local market. The average selling price per unit in the year ended June 2023 was Sh.450,000 each. The company sold 500 units during the year thus generating an equivalent number of sales invoices. Sales invoices were completed manually with the director signing all invoices to confirm the sales value is correct. You are the Audit Manager of the audit exercise working together with an Audit Senior and Audit Junior; as part of the audit team.

During the planning meeting, suggestions were made about how to select a sample of sales invoices for testing. As the Audit Manager, you proposed to check all the sales invoices, the Audit Senior proposed selecting a sample using statistical sampling techniques whereas the Audit Junior proposed taking a random sample of invoices by reviewing the invoice file and manually choosing a few important invoices

Required:

Analysing each of the proposals by the team members, advise on the most suitable technique to use. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Auditors use assertions in assessing risks by considering potential misstatements that might occur and thus designing audit procedures that respond to each risk.

Required:

Evaluate **FIVE** financial statement assertions about classes of transactions and events for the period ended. (10 marks)

- (b) Jamila and Juma Associates have been appointed as the incoming auditors for Kibuyu Kirefu Ltd., a company that manufactures and sells various plastic items in East Africa. The client is the largest the firm has ever engaged in offering their audit services. Jamila and Juma Associates are required to conduct the interim audit and the final audit for the client’s financial internal control system.

Required:

Propose **FIVE** audit procedures the auditors could undertake during each of the following:

- (i) Interim audit (5 marks)
- (ii) Final audit (5 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Kenneth Muli, an auditor at P and M Associates is in charge of auditing Mali Traders. Kenneth Muli is planning the audit with his team. The team is unsure on whether to use computer assisted audit techniques (CAATs) or manual techniques.

Required:

Advise Kenneth Muli on **FIVE** factors to consider when choosing between the two techniques in an audit engagement. (5 marks)

- (b) Enumerate **SEVEN** benefits of data analytics in audit. (7 marks)
- (c) In accordance with International Standard on Auditing (ISA)-700 Forming an Opinion and Reporting on Financial Statements, the auditor is required to evaluate whether the financial statements are prepared, in all material respects, with the applicable financial reporting framework.

Required:

Explain **EIGHT** matters that the auditor could evaluate before forming the audit opinion on the financial statements. (8 marks)

(Total: 20 marks)

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