



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)

.....

Senm-Answers.com