



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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