



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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