



CPA PART III SECTION 6

ADVANCED AUDITING AND ASSURANCE

FRIDAY: 24 May 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) "A disruptive technology, like cloud computing, can impact on how to audit".

The above phrase was extracted from an article featured in an international auditing journal.

Required:

Describe three auditing challenges that are associated with cloud computing environments. (6 marks)

- (b) "To an external observer, financial audits and forensic audits may look similar. Both types of audit closely examine and confirm accounting records, using fairly similar methods. However, this could be as far as the similarities go".

The above statement was extracted from a presentation made during one of the conferences held by a national professional accountancy institute.

Required:

Evaluate two key differences between "financial audits" and "forensic audits". (6 marks)

- (c) Discuss the procedures involved in applying forensic auditing in fraud investigations. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) For the first time, the accounts of Mzalendo Ltd. have been presented as part of an integrated report. Included in the integrated report are several key indicators, one of which states that the company's profit before tax has increased by 20% from the previous year. However, in the profit and loss account, the increase is 12.5%.

Required:

Discuss the implications of the matter described above on the completion of the audit and on the auditor's report, recommending any further actions which would be taken by the auditor. (6 marks)

- (b) (i) Describe the aspects of a client's business which should be considered in order to gain an understanding of the client company and its operating environment. (8 marks)

- (ii) Recommend the procedures that an auditor should perform in order to gain business understanding of an entity. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Sinendet Ltd. manufactures custom-made furniture. The company's year end is 31 May. The company purchases its raw materials from a wide range of suppliers. The company's purchasing system is described below:

1. When production supervisors require raw materials, they complete a requisition form which is submitted to the purchase ordering department. Requisition forms do not require authorisation and no reference is made to the current inventory levels of the materials being requested. Staff in the purchase ordering department use the requisitions to raise sequentially numbered purchase orders based on the approved suppliers list, which was last updated 24 months ago. The purchasing director authorises the orders prior to these being sent to the suppliers.
2. When goods are received, the warehouse department verifies the quantity to the suppliers despatch note and checks that the quality of the goods received is satisfactory. The department then completes a sequentially numbered goods received note (GRN) and sends a copy to the finance department.

3. Purchase invoices are sent directly to the purchases ledger clerk, who stores them in a manual file until the end of the week. He then inputs the invoices into the purchases ledger using batch controls and gives each invoice a unique number based on the supplier code. The invoices are reviewed and authorised for payment by the finance director, but the actual payment is only made 60 days after the invoice is input into the system.

Required:

With respect to the purchase ordering system described above:

- (i) Analyse four system deficiencies. (8 marks)
- (ii) Recommend a control to address each of the deficiencies described in a (i) above. (4 marks)
- (b) Your firm is the auditor of Deluxe Tea Holdings Ltd., a company which is planning to list on the National Securities Exchange within the next six months. The listing rules of the securities exchange require compliance with corporate governance principles to which the directors are unsure as to the company's compliance status. The directors have requested for your firm's advisory on this matter.

Additional information:

1. The company's board comprises ten members; six executive directors, a non-executive chairman and three other non-executive directors (NEDs). The chairman and one of the NEDs are former executive directors of the company and on reaching the retirement age, were requested to take on non-executive roles.
2. The company has established an audit committee and all NEDs are members including the chairman of the board who chairs the committee.
3. All the four members of the audit committee were previously involved in sales or production related roles.
4. All the directors have been members of the board for at least four years.
5. As the chairman does not have an executive role, he has the sole responsibility of liaising with the shareholders and answering any of their questions. The company has not established an internal audit function to monitor internal controls.

Required:

Identify four corporate governance weaknesses faced by Deluxe Tea Holdings Ltd. and for each weakness, provide a recommendation to address it. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Your audit of Wasiwasi Ltd. indicates that one or more material uncertainties exist regarding the company's ability to continue as a going concern.

In view of the above circumstance, discuss four matters that should be considered in forming your final audit opinion and the potential impact on the auditor's report. (9 marks)

- (b) You are the audit manager responsible for the audit of Mega Group of Companies. The following information has been brought to your attention regarding two of the companies in the group:

1. **Samia Foods Ltd.**

The company manufactures and distributes cakes and cake ingredients. Towards the year-end, the government paid a grant to the company to assist with costs associated with installing new environmentally friendly packing lines which are aimed at reducing energy usage by 25%. The reduction in energy usage was one of the conditions of the grant. The company began operating the new packaging line three months ago.

2. **Lindi Ltd.**

Your firm audits all companies in the group except for Lindi Ltd. which is audited by a small local firm in the company's country of operation. Audit regulations in Lindi Ltd's country of domicile are not based on International Standards on Auditing (ISAs).

Required:

- (i) Recommend five principal audit procedures that should be performed on the conditions attached to the grant received by Samia Foods Ltd. (5 marks)
- (ii) Explain three factors that should be considered and the procedures that should be performed in deciding the extent of reliance to be placed on the work of the auditors of Lindi Ltd. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Identify four principles of ethics that are applicable to internal auditors and for each principle, explain how an internal auditor could demonstrate adherence. (8 marks)

- (b) Bawabu Ltd. seeks to obtain a loan for investment in capital assets. The directors of the company have approached River Bank Ltd. for the loan. To support their loan application, the directors have included a summary of profit forecasts for the next three years which reflect an expected growth in revenue and profits.

Required:

As an audit consultant for Bawabu Ltd., describe six examination procedures that you would use to enable you express a professional view on the profit forecasts. (12 marks)

(Total: 20 marks)

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