



**CPA INTERMEDIATE LEVEL
AUDITING AND ASSURANCE**

WEDNESDAY: 3 August 2022. 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) Describe five Auditor's responsibilities for the Audit of Financial Statements as provided by the International Standard on Auditing 700 (Revised): Forming an opinion and Reporting on Financial Statements. (10 marks)
- (b) Explain four items of information that the auditor should disclose in the opinion section of the auditor's report. (4 marks)
- (c) Your audit team is planning to adopt statistical sampling to analyse big data from a client operating in the banking sector.

Required:

Highlight six factors that the audit team should consider before adopting statistical sampling. (6 marks)
(Total: 20 marks)

QUESTION TWO

- (a) Describe four strategies that an auditor may deploy to reduce exposure to professional liabilities. (4 marks)
- (b) Auditors are frequently required to provide assurance for a broad range of non-audit engagements.

Required:

- (i) Summarise four elements of an assurance engagement. (4 marks)
- (ii) Distinguish between "reasonable assurance engagements" and "limited assurance engagements". (4 marks)
- (c) Your firm has been appointed as incoming auditors of Taratibu Motors Ltd. Part of the agreement is a proposal of undertaking of continuous audits on the company's financial statements.

Required:

Explain four disadvantages of conducting the proposed continuous audits. (4 marks)

- (d) Kilimo Sacco has recently automated its loan processing and disbursement activities upon purchase of an Enterprise Resource Planning (ERP) system. You have been requested to review the processing controls of the system.

Required:

Suggest four processing controls that the system should possess upon full implementation. (4 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Your client, ADL Ltd., deals in selling and distribution of office stationery. The company's Director mentions to you the possibility of the occurrence of errors and frauds within the company. The company also recently introduced an internal audit unit in its organisation structure to enhance the company's internal control framework.

Required:

- (i) Explain four ways in which the internal audit unit could assist the management in managing the risk of errors and frauds. (4 marks)
- (ii) Using relevant examples, describe three components of the Fraud Triangle that the management of ADL Ltd. should be aware of. (6 marks)
- (iii) Analyse six audit procedures that you would undertake in response to errors and fraud related to inventory quantities reported in the company's financial statements. (6 marks)
- (b) Analyse four factors that could result in an increase in the control risk within an organisation. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Your firm is in the process of auditing a client dealing in actuarial services. Your audit team lacks sufficient expertise in the field of actuarial services. In this regard, the Audit Manager has recommended engaging a management expert as a source of audit evidence. You are also required to maintain the working papers for the exercise.

Required:

(i) Analyse six factors that would affect the reliability of the information produced by the management expert. (6 marks)

(ii) Evaluate four features of the audit working papers that you would be required to maintain. (4 marks)

(b) International Standard on Auditing (ISA): “Going Concern”, deals with the auditor’s responsibilities in the audit of financial statements relating to going concern and the implications for the auditor’s report.

Required:

(i) Explain six indicators that would cast doubt to an auditor about the going concern status of a company. (6 marks)

(ii) Discuss for audit procedures that an auditor would carry out in order to obtain sufficient audit evidence to be able to form an opinion on the going concern status of a company. (4 marks)

(Total: 20 marks)

QUESTION FIVE

Your audit team is in the process of preparing the annual audit plan. You have been allocated the task of undertaking risk assessment. Mike Ogola, a newly recruited audit trainee, argues that there is no need for a risk assessment or even the whole audit planning process. He is convinced that the two exercises add absolutely no value to the output of the audit assignment.

Required:

(a) Explain six justifications for undertaking audit planning. (6 marks)

(b) Distinguish between “qualitative risk assessment techniques” and “quantitative risk assessment techniques”. (4 marks)

(c) Describe five possible risk assessment challenges that you are likely to encounter as you undertake the above assignment. (5 marks)

(d) Recommend five risk management responses that could be deployed to mitigate risk. (5 marks)

(Total: 20 marks)

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