



CPA INTERMEDIATE LEVEL  
AUDITING AND ASSURANCE

THURSDAY: 16 December 2021.

Time Allowed: 3 hours.

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

**QUESTION ONE**

- (a) International Standard on Auditing (ISA) 500 "Audit Evidence" requires auditors to obtain sufficient, appropriate audit evidence.  
Discuss five matters that auditors should consider with regard to the reliability of audit evidence. (5 marks)
- (b) Examine four matters which an audit practice might consider when deciding whether to use computer audit software. (4 marks)
- (c) International Standards on Auditing (ISA) 230 "Audit Documentation" requires that there should be adequate documentation of the work done to support the opinion expressed on the financial statements.  
**Required:**  
Discuss four reasons why the auditor should maintain detailed audit working papers. (8 marks)
- (d) Describe three types of corruption fraud that may be carried out in an entity. (3 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) International Standards on Auditing (ISA) 210 "Agreeing the terms of Audit engagements" requires that the auditor and the entity should agree on the terms of engagement in an audit engagement letter or other suitable form of contract.  
**Required:**  
(i) Explain two objectives of an engagement letter. (4 marks)
- (ii) Highlight eight contents of an audit engagement letter. (8 marks)
- (b) Planning for a specific audit includes strategic and operational aspects. Distinguish between "strategic" and "operational" aspects of audit planning. (4 marks)
- (c) "The form and content of an auditor's report will depend on the nature of the audit, the intended users, and the applicable standards and requirements".  
In light of the above statement, explain how the auditor's report may differ between "attestation engagements" and "direct reporting engagements". (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) According to International Standard on Auditing (ISA) 220. "Quality Control for an Audit of Financial Statements" the auditor should consider certain factors before accepting a new engagement or continuing an existing engagement.  
With reference to the above standard, discuss three such factors. (6 marks)
- (b) The auditor should consider the risk that the going concern assumption may no longer be appropriate.  
With reference to the above statement, identify four financial indicators that shows that the going concern assumption may not be appropriate in the preparation of a company's financial statements. (8 marks)
- (c) You are the auditor of Sharoh Ltd. which was incorporated in December 2018. The company's main business is in real estate. Over the last two years, the company has recorded increased profits as a result of the Property Market-boom in the country. Due to the increased number of transactions, you as the auditor feel that it is prudent to have an interim audit. The management are however hesitant about your proposal.

**Required:**

Explain three reasons to the management of Sharoh Ltd. why an interim audit is necessary and how it could be of benefit to the client. (6 marks)

**QUESTION FOUR**

Relax Hotels and Cottages Ltd. is your new client operating in the hospitality industry.

The company management has indicated to you in the opening meeting that the internal control environment is critical to their business profitability especially during the recent economic downturn. You are required to understand the company's internal control environment before commencing the audit task.

**Required:**

In relation to International Standards on Auditing (ISA) 315 "Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment";

- (a) Explain the term "control environment". (2 marks)
  - (b) Discuss six elements of control environment that would be relevant in understanding Relax Hotels and Cottages Ltd. (12 marks)
  - (c) Examine six factors that would lead to change in the inherent risk of Relax Hotels and Cottages Ltd. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

(a) The International Standards on Auditing 700 (Revised) - Forming an opinion and Reporting on financial statements deals with the auditors responsibility to form an opinion on the financial statements.

**Required:**

- (i) Describe five auditor's responsibilities for the audit of the financial statements section of the auditors report. (5 marks)
  - (ii) Itemise three additional auditors responsibilities for audit of financial statements when auditing accounts for a group of companies. (3 marks)
  - (iii) Summarise four matters that an auditor should include in the "Basis of opinion" section of the auditors report. (4 marks)
- (b) E-commerce is the buying and selling of goods online. Propose five elements of inherent risks associated with operating an E-Commerce platform. (5 marks)
  - (c) Examine three mandates of internal auditors of a government entity as per the Public Financial Management Act. Regulations (2015). (3 marks)
- (Total: 20 marks)**
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