



CPA INTERMEDIATE LEVEL

AUDITING AND ASSURANCE

WEDNESDAY: 7 December 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) Distinguish between a “financial statement audit” and a “fraud examination”. (4 marks)
- (b) Smart Elec Ltd., one of your new clients, deals in locally manufactured and imported electric appliances targeting middle level income customers. Your Audit Manager has assigned you the task of verification of inventory which includes attending a stock take at your client’s premises.

Required:

Discuss **SIX** possible challenges that you are likely to encounter in the verification of inventory. (6 marks)

- (c) In the context of the inherent limitations in both internal control and the audit process itself, explain **FIVE** reasons why even a properly performed audit may not detect errors and fraud. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) You have been provided with the following independent scenarios:
1. H Ltd. is a fast-growing company that operates in the animal feeds industry. It is quoted on the Securities Exchange but its founder, Kazi Tele and his family still control about 60% of the company’s voting shares. Kazi Tele personally makes all the major decisions and the Board of Directors just “rubber stamps” them. There is a nomination committee of the Board but this notwithstanding, a majority of the Board members of H Ltd. are either members of Kazi Tele’s extended family or have some connection to him.
 2. Tech Up Ltd. is a private company engaged in the development and manufacture of computer accessories. The industry in which the company operates is very competitive and subject to rapid changes in technology. The company ranks third or fourth in the market in which it operates and its products are rated slightly behind the market leaders in terms of performance.

Required:

- (i) For each of the scenarios in (1) and (2) above, evaluate how the risk of material misstatement should be assessed. (6 marks)
- (ii) Explain what effect the evaluation in (i) above will have on the detection risk. (6 marks)
- (b) Describe **FOUR** characteristics of financial statement fraud. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In recent years, there has been a substantial increase in cybercrime occasioned by the reliance placed on technology by business entities. As a result, the effect of cybercrime on organisations is becoming highly significant in relation to financial statement audits.

Required:

Citing **FIVE** factors, discuss the importance of cybersecurity in the context of ISA 315 (Identifying and Assessing the Risks of Material Misstatement). (10 marks)

- (b) Haki Yangu is an ordinary shareholder in Mizani Ltd. He has instituted a criminal liability case against the auditors of Mizani Ltd. as a result of his reliance on the information presented in the company's audited financial statements.

Required:

- (i) Highlight **FOUR** actions by an auditor that could make him criminally liable under the Companies Act in your jurisdiction. (4 marks)
- (ii) Describe **THREE** circumstances that Haki Yangu is required to prove against the auditors for a successful criminal liability case under the Companies Act in your jurisdiction. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain the "**THREE** Es" of a value for money audit. (6 marks)
- (b) ISA 230 (Audit Documentation), requires auditors to prepare audit documentation for an audit of financial statements on a timely basis.

Required:

Describe **FOUR** benefits of documenting audit work. (4 marks)

- (c) An internal audit function is an appraisal activity established or provided as a service to the entire entity.

Required:

With reference to the above statement, explain **FIVE** functions that could be performed by the internal audit department. (10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Your firm has been appointed as the new auditors for Jazamatt Ltd., a small-scale supermarket. The company has recently unearthed fraudulent activities perpetrated by employees leading to loss of credibility with its current and potential customers. The fraud led to loss of company revenue which was brought about by a weak internal control system (ICS). The company has requested your firm to support it to improve its operations in order to avoid another fraud in future.
- (i) Propose a five-step approach that you could adopt to identify deficiencies (ordinary and significant) including material weaknesses in the ICS of Jazamatt Ltd. (5 marks)
- (ii) Explain to the management of Jazamatt Ltd. **THREE** responsibilities that they bear regarding evaluating risks of fraud in the company. (3 marks)
- (iii) Highlight **THREE** types of revenue manipulations that the employees of Jazamatt Ltd. may have exploited in undertaking the fraud. (3 marks)
- (b) Mahindi Safi Millers operates a milling business that procures maize supplies from local farmers as a community empowerment program. The company also recruits permanent and casual labour from the community who are paid salaries and wages respectively. You have been requested to undertake a verification of salaries and wages paid in the month of November 2022.

Required:

Propose **NINE** procedures that you would review to verify the salaries and wages before proceeding to verify payments made on account of salaries and wages. (9 marks)

(Total: 20 marks)

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