



CPA PART II SECTION 4
AUDITING AND ASSURANCE

THURSDAY: 24 May 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Describe the procedures you would apply in detecting fraud where employees create non-existent suppliers and then divert payments to themselves. (8 marks)
- (b) International Standard on Review Engagements (ISRE) 2400 “Engagements to review Financial Statements” sets out the objective, general principles and procedures to be applied for a review engagement.

Required:

Explain six main procedures which an auditor should perform when conducting a review engagement. (12 marks)
(Total: 20 marks)

QUESTION TWO

- (a) You are considering deploying an audit software to undertake substantive testing of data files in the sales and inventory system.

Required:

Discuss five challenges you might encounter while using the audit software. (10 marks)

- (b) Explain the following terms as used in contemporary audit:

- (i) Cyber insurance. (2 marks)
- (ii) Social engineering. (2 marks)
- (iii) Data protection. (2 marks)
- (iv) Remediation procedures. (2 marks)
- (v) Forensic accounting. (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) You have been appointed the lead auditor of CBC Ltd. and you have held a meeting with management where certain representations were orally given and others implied.

Required:

With reference to International Standard on Auditing (ISA) 580 “Written Representations”, discuss the circumstances that might lead you to require management to confirm in writing the oral and implied representations. (8 marks)

- (b) Highlight the substantive procedures that might be performed by an auditor to verify the payroll. (8 marks)
- (c) In the context of public sector auditing, distinguish between “performance audits” and “compliance audits”. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Explain the internal control objectives in each of the following cases relating to credit sales:

- (i) Credit approval. (2 marks)
- (ii) Receipt of sales order. (2 marks)
- (iii) Invoicing of goods dispatched. (2 marks)
- (iv) Entry into the debtor's ledger. (2 marks)

(b) Your firm has been appointed the auditor for Musoni Ltd., a company that distributes computer equipment. During the audit, the following matters came to your attention:

1. The depreciation rates had been reviewed and adjusted resulting in an increase in asset lives and a reduction in depreciation amounts.
2. Stock take across all the warehouses could not be undertaken due to lack of staff.
3. One of the warehouses caught fire and goods worth Sh.50 million got damaged. A claim had been lodged with the insurance company but the incident was still under investigation. The amount had however been included in the financial statements as expected income.
4. Bank reconciliation had not been completed even though there were material balances.

Required:

Describe four audit risks arising from the issues above and the proposed auditor's response. (8 marks)

(c) Distinguish between "assurance engagements" and "non-assurance engagements". (4 marks)
(Total: 20 marks)

QUESTION FIVE

(a) A suitable criteria is the benchmark used to evaluate a subject matter for the purpose of presentation and disclosure.

Required:

Describe three characteristics of a suitable criteria. (6 marks)

(b) Explain the three components of the fraud triangle. (6 marks)

(c) Discuss four reasons why an auditor might decide not to seek for re-election. (8 marks)
(Total: 20 marks)

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