



CPA PART II SECTION 4  
AUDITING AND ASSURANCE

THURSDAY: 23 May 2019.

Time Allowed: 3 hours.

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

**QUESTION ONE**

The Finance Director of Usonga Ltd. has informed you that some fraud took place during the year in the company's payroll department. A number of fictitious employees were set up on the payroll and wages were paid into one bank account that belonged to two supervisors who have recently resigned. One of the supervisors had the sole responsibility for setting up new entrants in the payroll system, while the other supervisor processed and authorised bank transfer requests for wages and supplier payments.

The finance director has requested your audit firm for recommendations on how to improve controls in this area to prevent this type of fraud recurring. Usonga Ltd. has recently established a Human Resources department.

**Required:**

- (a) Explain three types of control that Usonga Ltd. could put in place to reduce the risk of the above fraud recurring. For each control, describe how it would mitigate the risk. (12 marks)
- (b) Describe four procedures which you would perform to assess whether Usonga Ltd. is a going concern. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Describe three responsibilities of an auditor in the audit of general purpose financial statements. (6 marks)
- (b) The Finance Director of Kijanj Industries has requested your firm to undertake a non-audit assurance engagement later in the year. Part of your team includes an audit assistant who has not been involved in such an assignment before and has asked you to explain what an assurance engagement involves.

**Required:**

Explain three key elements of an assurance engagement. (6 marks)

- (c) In the context of modifying an audit opinion, the auditor might either conclude that:
- (i) Based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement;
- Or
- (ii) As a result of being unable to obtain sufficient and appropriate audit evidence, the financial statements as a whole are not free from material misstatement.

**Required:**

Differentiate between the two audit conclusions above. (4 marks)

- (d) Outline four safeguards that an audit firm could implement to address potential conflicts of interest when auditing two competing clients. (4 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) In the context of International Standard on Auditing (ISA) 620 relating to reliance on the work of an expert:
- (i) Describe two situations where an auditor might need to rely on the work of an expert. (2 marks)
  - (ii) Explain three factors taken into consideration by an auditor when placing reliance on the work of an expert. (6 marks)
- (b) Examine four contents of working papers in circumstances where the auditor has used analytical procedures as substantive tests in carrying out his audit engagement. (4 marks)
- (c) As an audit assistant engaged in the audit of Samawati Ltd., you have been assigned the audit of non-current assets. The company has a substantial number of items of plant and machinery in its books of account.

**Required:**

- (i) Summarise two objectives of an internal control system over the company's non-current assets. (2 marks)
- (ii) Discuss three internal control procedures you would recommend to the company to safeguard its investments in non-current assets. (6 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) With reference to an auditor's report, examine the matters that are included in the following paragraphs:
- (i) Basis for opinion. (3 marks)
  - (ii) Key audit matters. (3 marks)
- (b) Citing two examples, explain the term "fraudulent financial reporting". (3 marks)
- (c) Discuss four circumstances which might cause an auditor to change his risk assessment of a client company. (8 marks)
- (d) Examine the importance of materiality assessment to an auditor. (3 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) Describe three components of an entity's internal control system. (6 marks)
- (b) (i) Explain the term "reasonable assurance" as used in auditing. (2 marks)
- (ii) The internal audit function of an entity should have an internal audit charter approved by the Board to govern its activities:

**Required:**

As an internal auditor of Zed Ltd., discuss six matters contained in an internal audit charter of an entity.

(12 marks)

**(Total: 20 marks)**

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