



CPA PART II SECTION 4
AUDITING AND ASSURANCE

FRIDAY: 27 November 2020.

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) 505 – External confirmations, considers a number of different types of external confirmations including accounts receivable confirmations.

Required:

- (i) Distinguish between a “positive confirmation” and a “negative confirmation”. (4 marks)
- (ii) Evaluate four circumstances, other than the confirmation of accounts receivable, where external confirmations might be used by the auditor to obtain audit evidence. (4 marks)
- (b) International Standard on Auditing (ISA) 315 – Identifying and assessing the risks of material misstatement through understanding the entity and its environment, sets out matters that should be documented during the planning stage of an audit.

Required:

Highlight six matters that should be documented when developing an audit plan. (6 marks)

- (c) International Standard on Auditing (ISA) 230 – Audit Documentation, provides guidance to auditors in respect of audit working papers.

Required:

Summarise six factors which could affect the form and content of audit working papers. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) An overall audit strategy guides the auditor in developing an audit plan.

Required:

Examine four matters that might be taken into consideration by an auditor when developing the overall audit strategy. (8 marks)

- (b) Describe five motives for fraudulent financial reporting by the management of an entity. (5 marks)
- (c) Other than in fraud detection, suggest four other areas where forensic accounting and auditing might be applied. (4 marks)
- (d) Evaluate three approaches used in performance auditing in the Public Sector. (3 marks)

(Total: 20 marks)

QUESTION THREE

- (a) (i) Distinguish between “tests of control” and “substantive tests”. (4 marks)
- (ii) Describe six tests of control that an auditor might carry out in the course of his audit assignment. (6 marks)

- (b) Any work delegated to audit assistants should be directed, supervised and reviewed in a manner which provides reasonable assurance that such work is performed competently.

Required:

Examine four matters that might be taken into consideration when reviewing the work performed by audit assistants in an audit engagement. (4 marks)

- (c) Your audit firm is currently engaged in the audit of Zed Ltd. for the financial year ending 30 November 2020. You are considering whether to perform certain tests manually or with the assistance of computer assisted audit techniques (CAATs).

Required:

Discuss three factors that could influence your decision on whether to perform the tests manually or with CAATs.

(6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Your friend James Nyakemincha has recently purchased some shares from ABC Ltd., a listed company at the Securities Exchange. You questioned him on whether he had investigated the company before purchasing the shares. He replied: "Not really, I chose ABC Ltd.'s shares because I read in the newspaper that ABC is externally audited, of which not all companies are, and that their auditors are an international auditing firm hence it must be a good investment".

Required:

Citing five reasons, justify why you would agree or disagree with James' view with regard to his purchase of shares.

(10 marks)

- (b) Discuss five mechanisms that the management of an audit firm could use to ensure compliance with the professional code of ethics by members of staff.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) In terms of International Standard on Auditing (ISA) 700 - Forming an opinion and reporting on financial statements; in evaluating whether the financial statements are presented fairly in the context of the financial reporting framework, the auditor should evaluate important aspects of the financial statements.

Required:

Identify five aspects of the financial statements which the auditor should evaluate.

(5 marks)

- (b) Describe five audit assertions you would test in the conduct of an audit of office furniture and equipment. (10 marks)

- (c) Explain five reasons why directors might decide not to correct a material misstatement in the financial statements.

(5 marks)

(Total: 20 marks)

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