

# KASNEB

## CPA PART II SECTION 4

### AUDITING AND ASSURANCE

THURSDAY: 26 May 2016.

Time Allowed: 3 hours.

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

#### QUESTION ONE

- (a) In the context of International Standards of Supreme Auditing Institutions 3100, "Performance Audit Guidelines - Key Principles":
- (i) Define the term "performance auditing". (2 marks)
  - (ii) Discuss the three approaches that might be taken in examining the performance of the audited entity. (6 marks)
- (b) During the audit of Bamboo Ltd., you suspect that there might have been some irregularities in the procurement department based on the discussions you had with some of the staff members.

**Required:**

Explain six audit steps you would undertake to help you in arriving at an appropriate audit opinion. (12 marks)  
(Total: 20 marks)

#### QUESTION TWO

- (a) Highlight two limitations of external audits. (2 marks)
- (b) Describe the type of assurance report a practitioner would issue in each of the following engagements:
- (i) Reasonable assurance engagement. (2 marks)
  - (ii) Limited assurance engagement. (2 marks)
- (c) Describe four types of audit opinions that an auditor could issue. (8 marks)
- (d) In the context of International Standard on Auditing (ISA) 260 - "Communicating with those charged with governance", describe three matters that the auditor should communicate to those charged with governance in relation to auditor independence. (6 marks)  
(Total: 20 marks)

#### QUESTION THREE

- (a) (i) Define the term "sampling risk". (2 marks)
- (ii) Discuss two types of errors that could arise from sampling risk. (4 marks)
- (b) Describe the impact of each of the following situations on the sample size:
- (i) An increase in the extent to which the auditor's risk assessment takes into account relevant controls. (2 marks)
  - (ii) An increase in the use of other substantive procedures directed at the same assertion. (2 marks)
  - (iii) An increase in the auditor's assessment of the risk of material misstatement. (2 marks)
- (c) Explain four purposes of an audit program. (8 marks)  
(Total: 20 marks)

**QUESTION FOUR**

- (a) Describe the following Computer Assisted Audit Techniques (CAATs):
  - (i) Embedded audit facilities. (2 marks)
  - (ii) Integrated test facilities. (2 marks)
- (b) List four audit procedures that could be carried out using computer assisted audit techniques. (4 marks)
- (c) Shujaa Ltd. is in the process of implementing a computer based accounting system. As their auditor, you have been requested to advise on the appropriate controls to be implemented to prevent unauthorised changes to the data files.

**Required:**

Suggest six controls that the management of Shujaa Ltd. should consider. (12 marks)  
**(Total: 20 marks)**

**QUESTION FIVE**

- (a) In the context of International Standards on Auditing (ISA) 560 - "Subsequent Events":
  - (i) Define the term "subsequent event". (2 marks)
  - (ii) Discuss two objectives of the auditor in relation to subsequent events. (4 marks)
- (b) Explain four ways in which the auditor might minimise risk during a particular audit. (8 marks)
- (c) You have been appointed the auditor of Fadhili Ltd. and as part of the audit, you have requested management to provide you with a letter of representation.

**Required:**

Discuss three matters you would expect to find in the letter in relation to management's responsibilities. (6 marks)  
**(Total: 20 marks)**

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