

# KASNEB

## CPA PART II SECTION 4

### AUDITING AND ASSURANCE

THURSDAY: 26 November 2015

Time Allowed: 3 hours.

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

#### QUESTION ONE

- (a) (i) Define the term "forensic accounting". (1 mark)  
(ii) Explain a situation in which forensic accounting might be applied. (1 mark)
- (b) Discuss the three E's of value for money auditing as used in public sector auditing. (6 marks)
- (c) In the context of International Standard on Auditing (ISA) 220-Quality Control for an Audit of Financial Statements, discuss the quality control procedures the engagement partner might consider in each of the following:
- (i) Client acceptance. (4 marks)  
(ii) Engagement team. (4 marks)  
(iii) Direction. (4 marks)

(Total: 20 marks)

#### QUESTION TWO

- (a) Explain four assertions relevant to accounts payable at year end. (8 marks)
- (b) You are the auditor responsible for the audit of Yummy Foods Ltd., a company that operates a chain of fast food outlets. It has come to your attention that a customer has sued the company claiming an amount of ten million shillings for food poisoning. The amount is material, but management believes there is good defence against the claim and thus no provision or disclosure has been made in the books.

##### Required:

- (i) Evaluate five items of evidence that might enable you form a conclusion on the likelihood of the claim being successful. (10 marks)  
(ii) Describe how the matter could be reported in the financial statements if your conclusion is that there is a possibility, but not a probability that the claim would be successful. (2 marks)

(Total: 20 marks)

#### QUESTION THREE

- (a) (i) Explain the meaning of the term "going concern". (2 marks)  
(ii) State eight factors that might indicate doubt in the ability of an entity to continue as a going concern. (8 marks)
- (b) Discuss five factors that could influence the extent to which an auditor might use analytical review to collect audit evidence. (10 marks)

(Total: 20 marks)

#### QUESTION FOUR

- (a) In the context of International Standard on Auditing (ISA) 315-Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment, describe five components of an entity's internal control system. (10 marks)
- (b) Explain the following terms as used in auditing:
- (i) Audit risk. (2 marks)  
(ii) Inherent risk. (2 marks)  
(iii) Control risk. (2 marks)  
(iv) Attest engagement. (2 marks)  
(v) Direct reporting engagement. (2 marks)

(Total: 20 marks)

**QUESTION FIVE**

- (a) Your audit firm was recently appointed the auditor of ABC Ltd. for the first time. ABC Ltd. requires that the audit be concluded within two months after the end of the financial year.

Describe the steps your audit firm would take prior to accepting this appointment. (10 marks)

- (b) During the audit of Faida Ltd., you noticed the following:

1. There were material deposits in the bank just before the year end and subsequent withdrawals thereafter.
2. Many debtors disputed the amount alleged by management after circularisation. There were also inconsistencies between the dates when the debtors made their payments and the dates when the records were updated, noting that all the payments were in cash.

**Required:**

- (i) Explain the impact of each of the two aspects above. (2 marks)
- (ii) Examine four audit procedures that could help you in arriving at an audit opinion in each of the two aspects above. (8 marks)

**(Total: 20 marks)**

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