kasneb

CPA PART III SECTION 6

ADVANCED AUDITING AND ASSURANCE

FRIDAY: 1 December 2017. **Time Allowed: 3 hours.**

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

QUESTION ONE

(a) Distinguish between "forensic accounting" and "forensic audit". (4 marks)

(b) Describe three challenges that an auditor might encounter in carrying out an audit in an e-commerce environment. (6 marks)

(c) Argue three cases for and two cases against the use of global corporate governance standards. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) The framework for assurance engagements does not permit an auditor to give an absolute level of assurance.

With reference to the above statement, suggest five reasons why it is not possible to give an absolute level of assurance. (10 marks)

(b) The International Standard on Auditing (ISA) 220: Quality Control for an Audit of Financial Statements provides that audits should be conducted in a manner that ensures the correct opinion is arrived at with due regard to time and other resource constraints. The engagement partner should be satisfied that the engagement team has the appropriate competence and capabilities.

Required:

Evaluate the importance of each of the following qualities in selecting an effective engagement team:

(i) Independence. (2 marks)
(ii) Scope of the assignment. (2 marks)
(iii) Complexity of the assignment. (2 marks)
(iv) Duration of the assignment. (2 marks)
(v) Client expectations and requests. (2 marks)

(Total: 20 marks)

QUESTION THREE

(a) You are the audit manager responsible for the audit of Kampuni Kubwa (KK) Ltd., a manufacturing company listed on the securities exchange. You are assigning staff to the final audit of KK Ltd. for the year ended 30 September 2017.

You are aware of the following matters:

- Janice Tuli, the assistant manager assigned to the interim audit of KK Ltd. recently discovered that some senior managers in the company have been defrauding the organisation. She has since received some threatening e-mails and calls from the managers.
- Alex Baricho, an audit senior has been auditing KK Ltd. for the last three years. He has confided in you that his father owns 2,000 shares in KK Ltd.

Required:

Analyse the ethical threats raised by the above matters. (4 marks)

(b) You are the audit manager of Tausi Ltd. You are conducting a review of the financial statements and notice some transactions with the pension fund of the employees. There is no disclosure in the accounts about any related party transactions.

Required:
With reference to the above statement, suggest six procedures that an auditor might carry out in order to establish if the pension fund is a related party. (6 marks)

(c) You are the audit manager assigned to the audit of Njema Ltd., the parent company of a group. As part of your work, in relation to the consolidated accounts, you are reviewing the work of the auditors who audit the accounts of the subsidiaries.

Required:
In the context of the above scenario, discuss five matters you should examine before relying on accounts not audited by you. (10 marks)

(Total: 20 marks)

QUESTION FOUR

You are the audit manager in charge of the audit of Vuka Mpaka Ltd., a limited liability company.

On 1 July 2000, Vuka Mpaka obtained the exclusive rights to operate car and passenger ferries across Ziwa Channel, for a period of twenty years. The company refurbished two ferries to service the route. The ferries do not meet the standards of the Environmental Regulation Authority. Each ferry makes an average of ten return crossings every day and has the capacity to carry 2,000 passengers and 400 vehicles per trip.

Vuka Mpaka Ltd. currently receives a subsidy from the local transport authority as an incentive to increase market awareness of the ferry service. The subsidy increases as the number of vehicles carried increases and is based on quarterly returns submitted to the authority.

The company employs fifty full-time crew members who are trained in daily operations, customer service as well as passenger safety in the event of personal accident or breakdown. The management of Vuka Mpaka Ltd. is planning to apply for a safety management certificate at the end of the year. This will require an audit of the ferries including a review of safety documents and evidence that activities are performed in accordance with documented procedures. A safety management certificate, valid for five years, will be issued if no major non-conformities have been found.

Your firm has been asked to provide Vuka Mpaka Ltd. with a business risk assessment as a management assurance service.

Required:

(a) Discuss five business risks that Vuka Mpaka Ltd. might face. (10 marks)

(b) Describe the processes by which the risks identified in (a) above could be managed by Vuka Mpaka Ltd. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) You are the engagement partner of Kitabu Ltd. The financial statements for Kitabu Ltd. for the year ended 30 September 2017, show total assets of Sh.749 million and profit before tax of Sh.57.4 million.

Required:
Discuss the potential implications of the following matters on the audit report:

(i) The basis of accounting note states that financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs). However, the accounting policy note for development costs states that all development costs are expensed as incurred. Results of audit tests showed that of the Sh.25.9 million development costs expensed during the year, Sh.9.8 million should have been recognised as an asset, in accordance with International Accounting Standard (IAS) 38 "Intangible Assets". (4 marks)

(ii) The management of Kitabu Ltd. has informed you that, for the first time, the company's annual report is to be published on the company's website. (2 marks)

(b) You are auditing the financial statements of Zebra Engineering Ltd. for the year ended 30 June 2017. The partner in charge of the audit instructs you to carry out a review of the company's activities since the financial year end.

Required:
Analyse seven audit procedures which you might carry out in order to identify any material post balance sheet events. (14 marks)

(Total: 20 marks)

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