



CPA PART III SECTION 6

ADVANCED AUDITING AND ASSURANCE

MONDAY: 30 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) (i) Some institutions have questioned why financial auditors do not detect more fraud. The truth, however, is that the processes of financial audits are different from those of fraud audits.
- Required:**
Explain four focus areas of fraud audits that distinguish them from financial audits. (4 marks)
- (ii) Reports documenting a forensic investigation differ considerably from audit opinions.
- The investigative report is not constrained by the required language of a governing standard. Forensic investigative reports differ from one another in organisation and content depending on the client's stated needs.
- Required:**
Describe six main components of a forensic investigation report. (6 marks)
- (b) (i) Professional scepticism is fundamental to the role and performance of auditors.
- Required:**
Describe four examples of auditable areas that might require an auditor's professional scepticism. (4 marks)
- (ii) Some scholars have identified the three elements of professional scepticism as attributes, mindset and action.
- Required:**
Evaluate how each of the three elements above relate with professional scepticism. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

You are the manager responsible for the audit of Food Supremo Limited and its subsidiaries. The group mainly operates a chain of national restaurants and provides vending and other catering services to corporate clients. All restaurants offer "eat-in"; "take-away" and "home delivery" services.

The draft consolidated financial statements for the year ended 30 September 2019 show revenue of Sh.422 million (2018-Sh.418 million), profit before taxation of Sh.18 million (2018-Sh.22 million) and total assets of Sh.307 million (2018-Sh.234 million).

The following issues arising during the final audit have been noted on a schedule of points for your attention:

- In September 2019, the board announced plans to cease offering "home delivery" services from the end of that month. The sales amounted to Sh.6 million for the year to 30 September 2019 (2018-Sh.8 million). A provision of Sh.2 million has been made as at 30 September 2019 for the compensation of redundant employees (mainly drivers). Delivery vehicles have been classified as non-current assets held for sale as at 30 September 2019 and measured at fair value less cost to sell, that is, Sh.8 million (carrying amount, Sh.5 million).
- Historically, all owned premises have been measured at net book value and depreciated over 10 to 50 years. The board has decided to revalue these premises for the year as at 30 September 2019. At the statement of financial position date, two properties had been revalued upwards by a total of Sh.17 million. Another 15 properties have since been revalued upwards by Sh.54 million and there remain a further three properties which are all expected to be revalued during year 2020. A revaluation surplus of Sh.71 million has been credited to equity.

Required:

- (a) For each of the matters listed under 1 and 2 above, discuss four factors that would influence the auditors approach to the audit and opinion, including assessment of materiality. (8 marks)
- (b) As the auditor of Food Supremo Group, describe the evidence that you would expect to find in your audit. (12 marks)
- (Total: 20 marks)**

QUESTION THREE

You are the auditor of Synergy Ltd., a medium-sized company which sells a limited range of industrial products.

The value of the company's sales orders range between Sh.5,000 and Sh.100,000 depending on the volume and mix of the orders. Recently, the company decided to transfer the sales accounting function to a computer bureau. Synergy Ltd. operates a fixed price list for customers and any changes to the price list must be approved by the sales manager. The specific functions outsourced to the computer bureau regarding the sales function were:

1. Producing invoices.
2. Updating the master file on trade receivables.
3. Analysing sales so as to produce credit entries to stock control accounts.

In order for the computer bureau to discharge its functions, Synergy Ltd. provides the bureau with the following information:

- (i) Details of quantities and type of sale transactions.
- (ii) Cash receipts.
- (iii) Price lists and alterations.
- (iv) Bad debts and special credits.

Required:

- (a) Citing ten areas of interest, describe the internal control system you would recommend to the management of Synergy Ltd. covering sales and delivery of input to the computer bureau. (10 marks)
- (b) Describe six audit procedures you would carry out to verify the sales of Synergy Ltd. (6 marks)
- (c) Explain four drawbacks of outsourcing of the payroll function by the management of Synergy Ltd. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) The audit committee is created as part of the corporate governance process, which is the cornerstone of shareholder protection.

Required:

Citing three areas, discuss the role and place of the audit committee within the corporate governance structure. (6 marks)

- (b) In the context of environmental audits:
- (i) Illustrate, using suitable examples, three environmental matters which may affect the financial statements. (3 marks)
 - (ii) Describe three general audit procedures that an auditor may carry out when evaluating environmental matters in relation to his audit client. (3 marks)
- (c) (i) Describe four audit techniques that an auditor may employ when conducting a value-for-money audit. (4 marks)
- (ii) Discuss four challenges associated with value-for-money audits in the public sector. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) You are the audit manager in charge of the audit of Mamboleo Ltd. for the year ending 31 December 2020. Currently, you are planning for the year-end audit. Mamboleo Ltd. produces various brands of high quality bread. During the interim audit, you noted that due to the present economic down-turn and the uncertainty in the wheat market, the company has suffered as its costs are increasing and its bread prices are higher than those of its competitors because of lower production runs. One indicator of the problems facing the company is that it has consistently used a bank overdraft facility to finance its activities.

When you discussed with the company management the actions being taken to improve liquidity, you were informed that the company planned to expand its facilities for producing white bread as this line had maintained its market share. The company has approached its bank for a loan to finance the expansion and also to maintain its working capital.

To support its request for a loan, the company has prepared a cash flow forecast for the next two years from the end of the reporting period. The internal audit department has reported on the forecast to the directors. However, the bank has requested for a report from the external auditors to confirm the accuracy of the forecast. Following this request, the directors have asked you to examine the cash flow forecast and then report to the bank.

Required:

- (i) Explain the kind of assurance you could give in the context of the request by the bank. (4 marks)
- (ii) Explain why the company's apparent liquidity problems will require a focus of the audit plan on the going concern appropriateness in the preparation of the company's financial statements. (4 marks)
- (iii) Describe eight procedures you would adopt in your examination of the cash flow forecast. (8 marks)
- (b) Explain the role of the International Organisation of Supreme Audit Institutions (INTOSAI). (4 marks)

(Total: 20 marks)

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