

**KASNEB
CPA
AUDIT AND ASSURANCE**

26th may 2015

QUESTION ONE

- a) Outline four contents of a letter of representation (4 marks)
- b) Explain six circumstances where the manager might be reluctant to sign the letter of representation (6 marks)
- c) Describe ten preventive and detective measures that might be implemented to avoid possible irregularities and fraud in the areas of purchases and creditors (10 marks)

(Total: 20 marks)

QUESTION TWO

- a) Explain six problems an auditor might encounter when auditing a computerized accounting system (6 marks)
- b) Highlight six steps that an auditor should take to counteract the problems identified in (a) above (6 marks)
- c) Discuss four system security controls which must be instituted by management in a computerized environment (8 marks)

(Total: 20 marks)

QUESTION THREE

- a) Define the following terms as used in audit sampling: (2 marks)
 - i. Multi-stage sampling (2 marks)
 - ii. Random systematic sampling (2 marks)
 - iii. Haphazard sampling (2 marks)
 - iv. Test- checking (2 marks)
 - v. Anomalous error (10 marks)
- b) Explain five inherent limitations of an internal control system

(Total: 20 marks)

QUESTION FOUR

- a) In relation to enterprise risk management, explain the following:
 - i. Four roles of risk management committee (4 marks)
 - ii. Three factors necessary for the effective implementation of an enterprise risk management programme (6 marks)
- b) Outline four factors that are considered when determining the professional fees in an audit (4 marks)
- c) Citing relevant examples, explain three ways in which the following threats might impact an auditor's objectivity:
 - i. Familiarity threat (3 marks)
 - ii. Self review threat (3 marks)

(Total: 20 marks)

QUESTION FIVE

- a) The engagement partner performs an overall review of the audit work before the draft report is prepared and discussed with the client:

Required:

Discuss five matters that should be considered by the engagement partner during such review

(10 marks)

- b) Natalie Wahito is the auditor of JR Ltd. She has discovered that she issued an audit report that contained misleading statement regarding the purchase of shares in a company, whose prospectus she reported on.

The audit report will generally be circulated to many people who may rely on it to make important investment decisions

Required:

Advise Natalie Wahito on three steps she should take upon discovering the misleading statement in the audit report

(6 marks)

- c) Outline four specific inquiries an auditor should make to those charged with governance to determine whether any subsequent events have occurred that might affect the financial statements (4 marks)

(Total: 20 marks)

QUESTION SIX

- a) An auditor might use an expert to obtain audit evidence as stipulated in ISA 620 (using the work of an Expert)

Required:

- i. Identify four circumstances where the auditor might require expert advice (4 marks)
- ii. Highlight four factors that the auditor should consider before relying on the work of an expert (4 marks)
- iii. Outline four issues to consider when choosing an expert (4 marks)

- b) Describe the auditor's responsibility, the audit procedure and actions that should be carried out in respect of subsequent events (8 marks)

(Total: 20 marks)

QUESTION SEVEN

- a) Explain five distinctions between "auditing" and "accounting" (10 marks)
- b) During client acceptance procedures, auditor should consider relevant matters before and after nomination

With reference to the above statement, describe the following:

- i. Five matters that should be considered before nomination (5 marks)
- ii. Five matters that should be considered after nomination (5 marks)

(Total: 20 marks)