CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.4: AUDITING

DATE: FRIDAY 28, FEBRUARY 2025

INSTRUCTIONS:

1. Time Allowed: **3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This Examination is divided into two sections (A and B).
3. **Section A** has **three** compulsory questions while **Section B** has **three** questions to choose **two.**
4. **Five** questions in total are to be attempted.
5. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

Safar Ltd manufactures soft drinks, it was established in 2020 and the company has factories across the country. The company's customer base comprises individuals and retailers who make direct purchases through its social media platforms. The Board of Directors of Safar Ltd is keen on practicing good governance in order to ensure effective risk management in the company. You are the audit supervisor reviewing the documentation of the company's internal controls and you come across the following matters:

1. There have been various complaints raised on the accuracy of supplier statements given that the accountant who used to handle the matters left the company.
2. Over 6 months, customers have been complaining about delayed deliveries.
3. Goods are dispatched to customers via a clearing company although the clearing company does not file returns with Safar Ltd to confirm delivery.
4. Customers undergo credit checks prior to being given credit and the limits are set by the sales ledger staff. Customers also place orders through the sales team who decide on the discount to be granted.

Required:

In the context of the above information;

a) **Discuss five limitations of auditing Safar Ltd.** (5 Marks)

b) **Explain five roles of an auditor in ensuring that the Board of Directors complies with good governance practices.** (5 Marks)

c) As an internal auditor at Safar Ltd**, describe four tests of controls over the matters noted in Safar Ltd.** (6 Marks)

d) **Enumerate four essential considerations when removing an auditor of a company as stated in Companies Acts.** (4 Marks)

(Total: 20 Marks)

QUESTION TWO

a) International Standard on Auditing (ISA) 705 "Modifications to the audit opinions in the independent auditor's report sets out the different types of modified opinions. With reference to the above standard:

i) **State objective of auditor in accordance with ISA 705.** (1 Mark)

ii) **Discuss three ways in which an auditor's opinion may be modified.** (6 Marks)

b) Urwego Ltd is in the process of implementing a computer-based accounting system. As an auditor, you have been requested to advise on the appropriate controls to be implemented to prevent an authorized change to the data files.

Required:

Propose six controls that the management of Urwego Ltd should consider in implementing a computer-based accounting system. (6 Marks)

c) International Standard on Auditing (ISA) 570 ''Going concern'' deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

Required:

i) **Highlight three indicators that would cast doubt on the auditor about the going concern status of a company.** (3 Marks)

ii) **Discuss four audit procedures that an auditor would carry out to obtain sufficient audit evidence to be able to form an opinion on the going concern status of the company.** (4 Marks)

(Total: 20 Marks)

QUESTION THREE

You are the auditor of CIICN Ltd, the company deals with office supplies, CIICN Ltd sells stationery to retail shops. Most sales are from small customers who do not have a sales ledger account. They can collect their purchases and pay by cash, for cash sales:

1. The customer orders the stationery from the sales department, which raises a pre-numbered multi-copy order form.
2. The Dispatch department makes up the order and gives it to the customer with a copy of the order form.
3. The customer pays the cashier for the goods by cheque or cash.
4. The cashier records and banks the cash.

Required:

a) **Describe eight audit procedures to be performed in assessing the misstatements of accounts.** (8 Marks)

b) **Suggest Seven audit procedures to be performed by the auditor in reviewing Bank balances** (7 Marks)

c) **Describe at least five test of controls you would carry out to audit CIICN Ltd's sales system** (5 Marks)

(Total: 20 Marks)

SECTION B

QUESTION FOUR

You are the audit manager in charge of the audit of MINEX Ltd a large company dealing with manufacturing and supply chain. The company has five executive directors and seven non-executive directors. The Board of Directors of the company is keen to establish an audit committee in order to enhance corporate governance in the management of the company and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions, and ethical accountability.

Required:

a) **Discuss five disadvantages of outsourcing an internal audit function.** (5 Marks)

b) **Explain four responsibilities and working relationships between an audit committee and the external audit firm.** (4 Marks)

c) **Discuss three matters that an auditor may have professional liability under statute law and three matters that prove the tort of negligence.** (6 Marks)

d) **Discuss five duties and responsibilities of reviewers in relation to the audit engagement.** (5 Marks)

(Total: 20 Marks)

QUESTION FIVE

You are newly appointed as an Internal auditor of Umwezi Ltd. You have recently ascertained the following about the company:

1. The company has two major customers and few small-sized customers.
2. The company has no formal management accounting systems. The new computer system is supposed to remedy the gap.
3. The Chief Executive officer of the company has a dominating personality and is overbearing on their subordinate.
4. The company recently purchased a very large and complex computer systems as a part of its automation system. The administration staff does not have adequate competence to run the system properly.

Required:

a) In the context of the above scenario**, explain the meaning of "Risk-based internal auditing'' and discuss five reasons why you should take a risk-based audit approach.** (7 Marks)

b) **Elaborate five audit procedures to be performed on the audit of Tangible Non-Current Assets.** (5 Marks)

c) The preparation of financial estimates involves significant subjective judgment and opinion. Many of the provisions made fall within what is ordinarily called ''Accounting estimates" In the context of the above statement, **describe five audit procedures required in respect of accounting estimates.** (5 Marks)

d) **Explain at least three contents of an audit report.** (3 Marks)

(Total: 20 Marks)

QUESTION SIX

a) You have just graduated with a Bachelor's Degree in Accounting and Finance and an advertisement has been placed in the New Times and Website for Assistant auditors in the office of the Auditor General. You have been shortlisted to attend an interview and you are in preparation for this interview to make sure that at least you have the concept and overview of the job description and the institution that you are looking to work in there are some questions you have to answer yourself.

Required:

i) **Describe three main legislative audit mandates for the Office of the Auditor General.** (3 Marks)

ii) **State four matters that should be included in the draft engagement letter requested by your supervisor.** (4 Marks)

b) **Describe two specific considerations of public sector Auditing and state three types of Audits performed by the Office of the Auditor General.** (5 Marks)

c) **Discuss four objectives and four considerations of the auditor's responsibilities relating to Other Information.** (8 Marks)

(Total: 20 Marks)

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