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CPA

Audit & Assurance

April 2026

Level: Intermediate Level

Question 1

 Legal and professional framework, Planning and Risk Assessment

Bora Ltd. is a public limited company. Following the resignation of its previous external auditor, the company is in the process of appointing a new auditor. The board of directors has shortlisted three audit firms and intends to recommend one of them to the shareholders for appointment at the forthcoming Annual General Meeting.

During preliminary discussions with one of the shortlisted firms, management requested the firm to assist in designing Bora Ltd.'s new internal control system over revenue. The proposed auditor also indicated that, if appointed, it would issue an engagement letter in line with the requirements of International Standards on Auditing (ISA).

Required:

(a) As the advisor to the board of Bora Ltd., outline SIX matters that should be considered before one of the shortlisted audit firms is recommended to shareholders for appointment as the company's external auditor at the Annual General Meeting.

(b) In relation to management's request that the proposed auditor assist in designing Bora Ltd.'s new internal control system over revenue, explain THREE ethical threats that may arise and, in each case, recommend ONE appropriate safeguard.

(c) Assuming that the shareholders appoint the recommended audit firm as Bora Ltd.'s external auditor, evaluate FOUR elements that should be included in the engagement letter to be issued to Bora Ltd. in accordance with ISA 210.

✓ Answer for Question 1

(a) Matters to consider before recommending an external auditor

Before the board recommends a firm, they shouldn't just look at price or reputation. They need to protect audit quality and independence.

1. Independence and Objectivity

- Confirm the firm has **no financial, business, or personal relationships** with Bora Ltd.
- Ensure compliance with ethical standards (e.g., independence rules).

If independence is questionable, stop there—don't appoint them.

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2. Professional Competence and Experience

- Experience in auditing **public limited companies**
- Knowledge of Bora Ltd.'s **industry (revenue-heavy businesses especially)**
- Availability of skilled staff

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3. Firm's Reputation and Quality Control

- Past audit quality and regulatory history
- Whether the firm complies with **quality control standards (ISQM 1)**

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4. Resources and Capacity

- Does the firm have enough staff and time?
- Can they meet reporting deadlines?

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Audit & Assurance

December 2025

Level: Intermediate Level

Question 1b

 Legal and professional framework

Your firm, Zawadi and Associates, has been the auditor of Magari Ltd.,which has been dealing in motor vehicle spare parts for the past 10 years. Due to the long association, a partner in your audit firm has been requested to sit in Magari Ltd.'s board meeting to provide advisory services. The company is one of your key clients and for the past five years approximately 30% of your firm's gross revenue has been obtained from Magari Ltd. from assurance and taxation services. Last year, Magari Ltd. poached two audit managers from your firm to support the internal audit and finance departments.

In September 2025, Magari Ltd. issued shares during an Initial Public Offer (IPO). Zawadi and Associates was involved in promoting the shares of the company.

Required:
Evaluate FIVE ethical threats from the engagement between Zawadi and Associates and Magari Ltd.

✓ Answer for Question 1b

Ethical Threats Evaluation

Based on the scenario, the following ethical threats arise:

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1. Self-Interest Threat

Definition: A self-interest threat occurs when the audit firm or a member of the audit team has a financial or other interest that could unduly influence their judgment or behavior.

Applicable Scenario:

- Magari Ltd. contributes **approximately 30% of Zawadi and Associates' gross revenue** for the past five years.
- Such a high proportion of fee income creates a **dependence** on the client.
- The audit firm may be reluctant to report adverse findings or qualify the audit report for fear of losing a significant client.

Ethical Concern: Independence and objectivity may be compromised as the firm prioritizes retaining the client over exercising professional skepticism.

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2. Familiarity Threat

Definition: A familiarity threat arises when a long-standing or close relationship with a client causes the auditor to become too sympathetic to the client's interests, leading to a loss of professional skepticism.

Applicable Scenario:

- Zawadi and Associates has been the auditor of Magari Ltd. for **10 years**.
- A partner in the audit firm has been requested to **sit on Magari Ltd.’s board meeting** to provide advisory services.

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Audit & Assurance

August 2025

Level: Intermediate Level

Question 1c

 Audit planning

Planning for an audit begins by developing the audit planning memorandum or the overall audit strategy.
 Enumerate SIX contents of an audit planning memorandum.

✓ Answer for Question 1c

An **Audit Planning Memorandum (APM)** (sometimes called the overall audit strategy) sets out how the audit will be conducted.

Here are the **main contents** you should enumerate:

Contents of an Audit Planning Memorandum

1. **Background Information about the Client**
    - Nature of business and industry environment.
    - Ownership, management structure, and governance.
    - Accounting system and internal controls overview.
2. **Audit Objectives**
    - Overall audit objective (to express an opinion).
    - Specific objectives for significant areas/accounts.
3. **Scope of the Audit**
    - Financial statements and periods covered.
    - Regulatory or statutory requirements.
    - Group audits, component audits, or joint auditors (if applicable).
4. **Audit Approach and Strategy**
    - Nature and timing of audit (interim vs. final).
    - Audit approach (control-based, substantive, or mixed).
    - Materiality thresholds and performance materiality.
5. **Risk Assessment**
    - Key business risks and financial statement risks.
    - Areas of significant audit risk (e.g., revenue recognition, provisions, going concern).

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Audit & Assurance

April 2025

Level: Intermediate Level

Question 2

 Legal and professional framework

You are the audit manager in KK and Associates an audit firm that specialises in the audit of retailers. The firm currently audits Mida Food Co. (MF) a food retailer. MF's main competitor, Rupa Foods Ltd. (RFL) has approached KK and Associates audit firm to act as its auditors. MF is concerned that if KK and Associates audits both companies, then confidential information could pass to RFL.

Ann Muli has been the audit engagement partner for MF for the last eight years. Her daughter Rachel Njoki has just accepted a job offer from MF as a manager. Rachel's employment contract states that if a bonus is to be paid it will be awarded as shares in MF rather than cash.

MF has also offered KK and Associates a 5% bonus on top of the audit fee if this year's audit can be completed three weeks earlier than last year. This is to reduce the demands on the finance director's time as he is busy working on other projects.

Required:

(a) Describe safeguards that KK and Associates could apply to manage the conflict of interest that might arise if the firm accepts the appointment by RFL as their external auditors.

(b) Evaluate potential risks to independence in respect of the audit of MF and in each case state the type of threat arising from the risk.

(c) You are the audit senior in charge of the audit of Deni Ltd. Your audit manager has informed you that during the year, a fraud occurred in the wages department of Deni Ltd. A payroll clerk set up fictitious employee accounts and the wages were paid into the clerk's own bank account. This clerk has subsequently left the company, but the audit manager is concerned that additional fraud could have taken place in the wages department.

Required:

Describe procedures which you could undertake during the audit of the wages department as a result of the audit manager's assessment of the increased risk of fraud.

✓ Answer for Question 2

(a) Safeguards for Conflict of Interest – MF and RFL

If KK & Associates accepts to audit both **MF** and **RFL**, there is a **conflict of interest** risk (risk of confidential information leakage). ISA **Code of Ethics (IESBA)** requires safeguards such as:

1. **Separate Engagement Teams**
    - Assign completely different audit teams for MF and RFL.
    - No overlap of staff on both audits.
2. **Information Barriers (Chinese Walls)**
    - Restrict access to confidential information between the two engagement teams.
    - Use secure IT systems, passwords, and restricted file access.
3. **Confidentiality Agreements**
    - Obtain written confidentiality undertakings from all staff involved.
    - Regular reminders of professional duty of confidentiality.
4. **Independent Review**
    - Have a partner not connected with either engagement review the safeguards in place.
5. **Client Communication and Consent**
    - Inform MF and RFL of the situation.
    - Obtain explicit consent from both parties to continue with the engagements.

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December 2024

Level: Intermediate Level

Question 2c

 Planning and Risk Assessment

Describe SIX stages involved in the development of an audit strategy.

✓ Answer for Question 2c

1. Understanding the entity and its environment

- Obtain knowledge of the client's business, industry, regulatory framework, objectives, and strategies.
- Helps in identifying areas of potential risk of material misstatement.

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2. Determining the reporting objectives and scope of the audit

- Identify the financial reporting framework to be applied.
- Consider deadlines for reporting, statutory requirements, and special terms of the engagement.
- This ensures the auditor's work is aligned with users' needs.

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3. Assessing materiality and audit risk

- Establish materiality levels for the financial statements as a whole and for specific classes of transactions.
- Evaluate inherent risk, control risk, and detection risk.
- Guides allocation of audit effort to higher-risk areas.

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4. Evaluating the entity's internal control systems

- Review design and implementation of controls relevant to financial reporting.
- Assess whether reliance can be placed on controls or if substantive testing will dominate.

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Audit & Assurance

August 2024

Level: Intermediate Level

Question 3a

 Internal control systems and Internal Audit Function

Curate Ltd. has been experiencing challenges in its internal audit department with a high staff turnover rate. There are also glaring cases of fraud being identified by the external auditors which the internal auditors had not identified. The chief executive officer has suggested to the board of directors that they should consider outsourcing the internal audit function.

Required:

(i) Advise the board of directors of Curate Ltd. on FIVE benefits that could accrue to Curate Ltd. from outsourcing the internal audit function.

(ii) Analyse FOUR implications of outsourcing the internal audit function on the work of the external auditor.

✓ Answer for Question 3a

(i) Benefits of Outsourcing Internal Audit

- Access to specialized expertise.
- Cost efficiency (reduced recruitment/training costs).
- Improved objectivity and independence.
- Scalability and flexibility of resources.
- Allows management to focus on core activities.
- Enhanced fraud detection capabilities.

(ii) Implications on External Auditor's Work

- External auditor may rely on outsourced internal audit work if competent.
- Need to review outsourced audit work papers for evidence.
- Can reduce extent of substantive testing.
- Must assess independence of outsourced auditors.
- Requires coordination and communication with external audit plan.
- External auditor may still verify high-risk areas.

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Audit & Assurance

April 2024

Level: Intermediate Level

Question 3a

 Planning and Risk Assessment

Auditors obtain knowledge about the audit client through the planning process, which also ensures an effective control and review of audit work.

Required:

Summarise FOUR ways through which audit planning assists in the conduct of an audit.

✓ Answer for Question 3a

Ways Audit Planning Assists in Conducting an Audit

- **Understanding the client** – Helps gain knowledge of the business, industry, and environment.
- **Risk identification** – Identifies areas with higher risk of material misstatement.
- **Efficient allocation of resources** – Assigns audit team members according to skills and experience.
- **Setting audit scope and objectives** – Defines the focus areas and procedures.
- **Coordination of audit work** – Ensures proper sequencing of tasks and reduces duplication.
- **Time management** – Establishes audit timeline and deadlines.
- **Determining materiality** – Helps focus on significant accounts and transactions.
- **Facilitates communication** – Promotes clear understanding among audit team and with client.
- **Supports documentation** – Provides basis for audit program and working papers.

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December 2023

Level: Intermediate Level

Question 3b

 Audit evidence

(i) Define the term “third-party certificate.”

(ii) Describe FOUR factors that might influence an auditor’s acceptance of third-party certificate as audit evidence.

✓ Answer for Question 3b

(i) Definition – Third-party certificate

- A **written statement** issued by an **independent party** (e.g., bank, supplier, customer) that **confirms the accuracy of specific financial information**.
- Examples:
  - Bank balance confirmations
  - Supplier confirmations of amounts owed
  - Customer confirmations of amounts receivable

(ii) Factors influencing acceptance of third-party certificate

- **Independence of the third party**
  - Certificate is more reliable if issued by a party **not influenced by the client**.
- **Competence of the third party**
  - The auditor considers whether the third party has **expertise or authority** to provide the information.
- **Reliability and formality of the certificate**
  - Certificates on **official letterhead**, properly signed, and containing **clear information** are more acceptable.
- **Nature and materiality of the information**
  - Highly **material or judgmental items** may require **additional audit procedures** beyond the certificate.
- **Timing of issuance**
  - Certificates should relate to the **relevant audit period**; outdated certificates reduce reliability.
- **Consistency with other audit evidence**

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Audit & Assurance

August 2023

Level: Intermediate Level

Question 4a

 Audit risk assessment

Auditors use assertions in assessing risks by considering potential misstatements that might occur and thus designing audit procedures that respond to each risk.

Required:

Evaluate FIVE financial statement assertions about classes of transactions and events for the period ended.

✓ Answer for Question 4a

Financial Statement Assertions for Classes of Transactions and Events

Assertions help auditors identify risks and design audit procedures.

Occurrence

- Transactions recorded actually **occurred** during the period.
- **Audit focus:** Prevent **overstatement** of revenues, expenses, or transactions.

Completeness

- All transactions that **should be recorded** are included in the financial statements.
- **Audit focus:** Prevent **understatement** of revenues, expenses, or liabilities.

Accuracy

- Transactions are recorded at **correct amounts**.
- **Audit focus:** Detect errors in amounts, pricing, discounts, or calculations.

Cut-off

- Transactions are recorded in the **correct accounting period**.
- **Audit focus:** Ensure transactions near year-end are **properly allocated**.

Classification

- Transactions are recorded in the **proper accounts**.

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April 2023

Level: Intermediate Level

Question 4b

 Legal and professional framework

Joyce Jamila runs an audit firm that recently completed the audit of SofaSeti Ltd., a manufacturer of exclusive home furniture. The audit fee amounted to Sh. 4,800,000. Having recently purchased a new house, Joyce proposed the following to SofaSeti Ltd. as a mode of settlement:

1. Instead of invoicing SofaSeti Ltd. a fee of Sh. 4,800,000, she would invoice the company an amount of Sh.2,800,000 for the audit fees.

2. SofaSeti Ltd. would then supply Joyce Jamila with free furniture with a cost value of Sh.2,000,000 for her new house.

3. SofaSeti Ltd. would not raise a sale in the company's accounting records and would write off the amount of Sh.2,000,000 off as part of the allowance for obsolete inventory.

Required:
Discuss FIVE issues in terms of the code of professional conduct applicable in the situation above.

✓ Answer for Question 4b

1. ***Independence and Objectivity (Integrity):*** *The auditor's independence and objectivity are essential in maintaining the integrity of the audit process. Joyce's proposal to receive furniture as part of the settlement for the audit fee could compromise her independence and objectivity. Auditors must avoid situations that could lead to conflicts of interest, as it might affect their ability to provide an unbiased audit opinion.*
2. ***Fee Arrangement (Professional Fees):*** *The proposed fee arrangement, where the audit fee is reduced to Sh. 2,800,000, might raise concerns about the reasonableness of the audit fee. The code of professional conduct requires auditors to charge fees that are commensurate with the work required and not be influenced by any other arrangements or considerations. The reduction of fees could potentially impair the quality of the audit.*
3. ***Gifts and Hospitality (Integrity and Objectivity):*** *Receiving free furniture from SofaSeti Ltd. with a cost value of Sh. 2,000,000 for her new house raises ethical concerns. Auditors should not accept gifts, benefits, or hospitality from their clients that could compromise their independence, objectivity, or integrity. Such arrangements can create an appearance of impropriety and erode trust in the audit process.*
4. ***Misrepresentation of Financial Information (Professional Competence and Due Care):*** *The proposed accounting treatment, where SofaSeti Ltd. would not record the transaction as a sale and instead write off the Sh. 2,000,000 as part of the allowance for obsolete inventory, raises questions about the accuracy and completeness of the financial statements. Auditors must ensure that*

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Level: Intermediate Level

Question 4c

 Internal control systems and Internal Audit Function

An internal audit function is an appraisal activity established or provided as a service to the entire entity.

Required:
With reference to the above statement, explain FIVE functions that could be performed by the internal audit department.

✓ Answer for Question 4c

Functions of the Internal Audit Department

1. **Evaluation of internal controls**
   - Assess the adequacy and effectiveness of **internal control systems** to prevent errors and fraud.
2. **Compliance review**
   - Check whether the organization **adheres to laws, regulations, and internal policies**.
3. **Operational efficiency and effectiveness**
   - Examine business processes to **identify areas for cost savings and process improvement**.
4. **Risk management support**
   - Identify and **assess business risks**, recommending mitigation strategies.
5. **Assurance and consulting services**
   - Provide **assurance on financial and operational reporting** and advise management on **best practices**.

Quick Recall Tip:

- Think **"Controls, Compliance, Efficiency, Risk, Assurance" → C-CERA**

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Audit & Assurance

August 2022

Level: Intermediate Level

Question 5

 Planning and Risk Assessment

Your audit team is in the process of preparing the annual audit plan. You have been allocated the task of undertaking risk assessment. Mike Ogola, a newly recruited audit trainee, argues that there is no need for a risk assessment or even the whole audit planning process. He is convinced that the two exercises add absolutely no value to the output of the audit assignment.

Required:

(a) Explain six justifications for undertaking audit planning.

(b) Distinguish between “qualitative risk assessment techniques” and “quantitative risk assessment techniques”.

(c) Describe five possible risk assessment challenges that you are likely to encounter as you undertake the above assignment.

(d) Recommend five risk management responses that could be deployed to mitigate risk.

✓ Answer for Question 5

(a) Six justifications for undertaking audit planning

1. **Efficient allocation of resources** – Planning helps allocate audit staff, time, and other resources effectively to high-risk areas.
2. **Identification of risk areas** – Enables the auditor to identify areas of potential material misstatement and focus audit efforts accordingly.
3. **Cost and time efficiency** – Proper planning reduces unnecessary work and ensures timely completion of the audit.
4. **Coordination of audit work** – Ensures all team members understand their responsibilities and tasks, enhancing team coordination.
5. **Compliance with auditing standards** – ISA 300 requires planning to ensure the audit is conducted in accordance with professional standards.
6. **Enhancement of audit quality** – Planning ensures a structured approach, improves documentation, and reduces the likelihood of overlooking significant issues.

(b) Distinction between qualitative and quantitative risk assessment techniques

Aspect	Qualitative Risk Assessment	Quantitative Risk Assessment
Definition	Uses descriptive methods (e.g., high, medium, low) to evaluate risk.	Uses numerical values or statistical measures to evaluate risk.
Focus	Focuses on the nature, likelihood, and impact of risks subjectively.	Focuses on probabilities, financial impact, or statistical likelihood of risks
Tools	Risk matrices, expert judgment, scenario analysis.	Probability distributions, statistical models, Monte Carlo simulations.
Output	Prioritized list of risks (e.g., high/medium/low).	Quantified risk values (e.g., expected loss in monetary terms).

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Audit & Assurance

April 2022

Level: Intermediate Level

Question 5b

 Assurance and non- assurance engagements

You are the managing partner in Odhiambo and Associates (Certified Public Accountants). Wasali Ltd. has recently engaged your firm to provide tax consultation services to the company.

Required:
Using four elements of an assurance engagement, explain whether the above engagement qualifies to be an assurance engagement.

✓ Answer for Question 5b

Assessment of Assurance Engagement for Wasali Ltd.

For an engagement to qualify as an assurance engagement, it typically involves the following elements:

1. ***Three-Party Relationship:***
   - *The existence of a three-party relationship where the practitioner (Odhiambo and Associates), the responsible party (Wasali Ltd.), and the intended users are involved.*
   - ***Assessment:*** *Yes, as Odhiambo and Associates is engaged by Wasali Ltd. to provide tax consultation services, and the intended users may include regulatory authorities, stakeholders, or internal management.*
2. ***Subject Matter:***
   - *The presence of a subject matter, which in this case is tax consultation services, involving the application of expertise by the practitioner to enhance the credibility of the information provided by the responsible party.*
   - ***Assessment:*** *Yes, as tax consultation services involve the application of accounting and tax expertise to provide advice and enhance the credibility of tax-related information provided by Wasali Ltd.*
3. ***Criteria for Evaluation:***
   - *Establishment of criteria for the evaluation or measurement of the subject matter. The criteria serve as a benchmark against which the practitioner assesses the information provided by the responsible party.*

