

**FRIDAY: 25 April 2025. Afternoon Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.**

**SECTION A**

**QUESTION ONE**

- (a) Distinguish between the following terms as used in supply chain audit and risk management:
- (i) Materiality and audit evidence (2 marks)
  - (ii) Internal controls and audit risk (2 marks)
  - (iii) Compliance audit and financial audit (2 marks)
- (b) Formulate **FIVE** key questions that a procurement audit team can use to guide the audit process. (5 marks)
- (c) Identify **FOUR** benefits an organisation may gain from conducting assurance engagements. (4 marks)
- (d) Outline **FIVE** key roles the board of trustees perform in managing organisational risks. (5 marks)
- (Total: 20 marks)**

**SECTION B**

**QUESTION TWO**

Evaluate **FIVE** factors that could lead an external audit consultant to form an inaccurate audit opinion. 10 marks)

**QUESTION THREE**

Analyse **FIVE** reasons why regulatory compliance is critical to an organisation's reputation and operational sustainability. (10 marks)

**(Total: 20 marks)**

**SECTION C**

**QUESTION FOUR**

**Read the case study below and answer the questions that follow:**

**ADORBE ENGINEERING WORKS (AEW)**

Adorbe Engineering Works (AEW) is a leading company specialising in road and structural projects, with its headquarters in Mombasa and regional offices across the country. The company is widely recognised for its excellence in managing supply chain risks and ensuring compliance, efficiency and resilience in its supply chain operations. Under the leadership of its executive team, headed by Sadera Nasinka, AEW has implemented a structured approach to supply chain auditing and risk management, integrating best practices and advanced technological solutions to enhance operational effectiveness.

To foster a risk-aware culture and strengthen its procurement processes, AEW has developed a comprehensive risk management framework. The company has established an integrated and dynamic risk register consolidating all project-related risks, providing a holistic view of potential exposures across its mega-projects. This centralised risk register ensures transparency and enables proactive decision-making by offering real-time tracking and structured mitigation strategies. Furthermore, AEW has introduced a risk index to systematically identify, categorise and address procurement and operational risks. This structured approach aligns with government regulations and compliance standards, ensuring that risk mitigation efforts are timely, transparent and effective.

To enhance its risk management framework, AEW leverages Predict! an advanced risk management software that captures both internal and external risks in real-time. The platform provides accurate exposure assessments, facilitates the development of structured risk treatment plans and supports robust regular reporting. This technology-driven approach enables AEW to cultivate a risk-conscious culture across all levels of the organisation. The company has also embedded a rigorous supply chain audit framework into its procurement strategy to enhance risk visibility and operational efficiency. One of the primary elements of this framework is supplier risk assessment and compliance. AEW conducts periodic supplier audits to evaluate performance, contractual compliance and financial stability. Additionally, suppliers are required to adhere to ISO 31000 risk management guidelines, reinforcing ethical, sustainable and risk-conscious procurement practices.

AEW incorporates Monte Carlo simulations into its procurement analysis to further enhance risk prediction. This technique helps assess uncertainties and their potential impact on project timelines and costs, enabling the organisation to adopt proactive risk mitigation measures that reduce project delays and financial losses. Furthermore, AEW is committed to growing procurement risk maturity by fostering a risk-positive culture within the organisation. The procurement team is actively involved in risk assessment from the early stages of project planning. The company has transitioned from traditional spreadsheet-based risk tracking to the Predict! platform, which enhances flexibility, automation and real-time risk monitoring. Recognising the importance of financial preparedness, AEW integrates risk into cost management, ensuring that risk-related expenses are factored into budget planning. Assigning quantifiable costs to risks strengthens decision-making and ensures that risk management remains a strategic priority.

AEW has institutionalised a culture of risk awareness throughout the organisation, ensuring that every department actively identifies, assesses and mitigates risks. This proactive approach prevents risk management from being siloed and instead embeds it as an integral part of daily operations. Governance and oversight are also critical components of AEW's risk management strategy. The organisation conducts regular compliance audits, ensuring that risk management protocols align with industry best practices. By integrating risk assessment principles into project planning, AEW effectively minimises operational disruptions and enhances long-term sustainability.

Additionally, AEW is committed to regulatory compliance, adhering strictly to ISO 31000 standards for risk management. By maintaining structured, transparent and continuously improved risk management processes, AEW reinforces trust among clients, suppliers and regulatory bodies. Compliance is a key driver of AEW's reputation and competitive advantage in the industry. Through a combination of supply chain audits, technology-driven risk management and a strong compliance culture, AEW has positioned itself as a leader in risk-aware procurement and infrastructure project execution.

*(Disclaimer: This case study is solely for educational and examination purposes.)*

**Required:**

- (a) Identify **FIVE** ways AEW has integrated risk management into its supply chain operations. (10 marks)
- (b) Explain **FIVE** reasons why embedding a risk-positive culture is essential in AEW's procurement framework. (10 marks)
- (c) Evaluate **FIVE** challenges AEW may encounter in implementing its dynamic risk register and monitoring systems. (10 marks)
- (d) Assess **FIVE** ways AEW has demonstrated governance and oversight in managing risks across its projects. (10 marks)
- (e) Discuss **FIVE** advantages AEW gains from transitioning from spreadsheet-based risk tracking to an integrated digital risk platform. (10 marks)
- (f) Recommend **FIVE** strategies AEW has employed to institutionalise a culture of risk ownership across its departments. (10 marks)

**(Total: 60 marks)**

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