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*(Knowledge for Development)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FIRST YEAR FIRST SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 820**

**COURSE TITLE: PRINCIPLES OF AUDITING**

**DATE: 8** **TIME: 3 HOURS**

2 p.m.


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**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other THREE (3) Questions in Section B  
TIME: 3 HOURS

**KIBUCO observes ZERO tolerance to examination cheating**

This Paper Consists of 4 Printed Pages. Please Turn Over. 

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## Question one (COMPULSORY)

### Case Study

Skye Antiques Ltd operates a large shop in the centre of North Bromwich and two smaller shops in adjacent towns. They sell expensive reproduction antique furniture. Normally customers see the furniture in the shop and place an order for delivery in the company van within four weeks. The delay occurs because each sale results in a purchase order for one of the suppliers. On placing the order the customer pays by cash, cheque, credit card or signs a hire purchase agreement. There are four sales assistants, a van driver and a cashier in the shop.

The smaller shops have a shop manager who deals with all the paperwork and part-time staff who assist at busy times. Customer orders are sent through to the main shop for sending to suppliers. Receipts from customers are banked daily – weekend receipts being banked on the Monday – and duplicate sales invoices are also sent to head office. Tills for any cash sales are cashed up daily and cash sheets agreed to till rolls. Managers have to sign the record of receipts.

Accounting and purchasing is done centrally by the manager and a part-time bookkeeper. The three directors all have other businesses and review the company operations once a month at an all-day board meeting.


- i) Identify any three types of errors / frauds that are likely to occur and suggest probable solutions to the same (measures to prevent the errors) (10 mks).
- ii) Identify three types of internal controls suitable for Skye Antiques Ltd (6 mks).
- iii) What functions should be segregated so that no two functions are under the control of one person? (4 mks)
- iv) What kind of audit would you recommend for Skye Antiques Ltd? (4 mks)
- v) List some of the limitations of internal control systems for Skye Antiques Ltd (6 mks)

### Section B (Answer Any Three Questions from This Section)

#### QUESTION TWO

Juliet B a partner in Tickitt & Run, Registered Auditors, receives a telephone call from the managing director of Chateaubriand Ltd which runs a chain of restaurants and bars. They wish to appoint Tickitt & Run as auditors as they have a disagreement with the existing auditors. The audit would be due to commence in about two months time.

- a) What should Juliet B consider before accepting the appointment as an auditor, what are his rights and duties? (6mks)
- b) Describe any two major ways in which the auditor may be appointed (6 mks)
- c) When would the auditor be held liable; argue your case with regard to the case of Rex V Kysant & Morland (1931) UK (7 mks)

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### QUESTION THREE

- a) Assume you have been hired by Abwere holdings to audit his books of accounts
- i. Write out an engagement letter for Abwere holdings since he is your client (10 mks).
- b) Professional ethics is a set of rules & regulations imposed by professional body to its members to govern their practice. Briefly discuss:-
- i) Five importance of professional ethics (5 mks)
  - ii) Five major components of ethical statements published by professional body ICPAK (5 mks)

### QUESTION FOUR

Viswa is a company that provides call centre services for a variety of organizations. It operates in a medium-sized city and your firm is the largest audit firm in the city. Viswa is owned and run by two entrepreneurs with experience in this sector and has been in existence for five years. It is expanding rapidly in terms of its client base, the number of staff it employs and its profits. It is now 15 June 20x7 and you have been approached to perform the audit for the year ending 30 June 20x7. Your firm has not audited this company before. Viswa has had three different firms of auditors since its incorporation.

Viswa's directors have indicated to you informally that the reason they wish to change auditors is because of a disagreement about certain disclosures in the financial statements in the previous year. The directors consider that the disagreement is a trivial matter and have indicated that the company accountant will be able to provide you with the details once the audit has commenced. Your firm has explained that before accepting the appointment, there are various matters to be considered within the firm and other procedures to be undertaken, some of which will require the co-operation of the directors.

Your firm has other clients that operate call centers. The directors have asked your firm to commence the audit immediately because audited accounts are needed by the bank by 30 July 20x7. Your firm is very busy at this time of year.

#### Required:

Describe the stages of an audit using the general approach (10 mks).

Discuss any two techniques / methods for recording and evaluating internal control system (10 mks)

### QUESTION FIVE

Assume that you are the auditor of a small manufacturing company, Dinko, that pays its staff in cash and by bank transfer and maintains its payroll on a small stand-alone computer.

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**Required:**

a) For the payroll department at Dinko, describe the:

- i. Internal control objectives that should be in place; (5 mks)
- ii. Methods of obtaining audit evidence in case of fraud (5 mks)

b) For the payroll charges and payroll balances (including cash) in the financial statements of Dinko:

- i. Describe the external auditor audit objectives; (5 mks)
- ii. List the tests of control and substantive procedures that will be applied in order to achieve the audit objectives identified in (b) (i) above (5 mks).

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