



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2017/2018 ACADEMIC YEAR**  
**SECOND YEAR FIRST SEMESTER**  
**SPECIAL/SUPPLIMENTARY EXAMINATION**  
**FOR THE DEGREE OF MASTERS BUSINESS**  
**ADMINISTRATION**

**COURSE CODE: MBA 820**

**COURSE TITLE: PRINCIPLES OF AUDITING**

**DATE:** 19/10/2018

**TIME:** 9:00 AM

---

**INSTRUCTIONS TO CANDIDATES**

Answer Question One and Any other THREE Questions

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.



## **SECTION A (COMPULSORY)**

### **QUESTION ONE (30 MARKS)**

You are an audit senior in a firm of practicing accountants and your manager has gone out for an urgent meeting with a partner. Mr. Charo, a manager with Charo and Company, a wholesale business has come to your office with a request that your firm becomes their auditors.

#### **Required:**

- a) Describe to Mr. Charo the legal, ethical and practical factors your firm would consider before accepting the appointment. (15 marks)
- b) Explain to Mr. Charo the qualification and disqualification of an accounting firm under the provisions of the Companies Act to become auditors. (15 marks)

## **SECTION B ( CHOOSE ANY TWO QUESTIONS)**

### **QUESTION TWO ( 20 MARKS)**

- a) Explain the meaning of the 'audit evidence'. (4 marks)
- b) Write a brief explanatory notes on the following terms in relation to audit evidence:
  - i. Relevance. (2 marks)
  - ii. Reliability. (2 marks)
  - iii. Sufficiency. (2 marks)
- c) Describe the various procedures of obtaining audit evidence giving an example of each by way of illustration. (10 marks)

### **QUESTION THREE (20 MARKS)**

You have been appointed the auditor of United Millers Company Limited, a medium manufacturing company which is quoted on the stock exchange.

#### **Required:**

- a) List the important matters which must be included in the letter of engagement. (14 marks)
- b) Explain the purpose of such a letter. (6 marks)

#### **QUESTION FOUR ( 20 MARKS)**

You have received a request from XYZ Ltd. to accept an appointment as their auditor for the financial year ending 31 December 2001.

**Required:**

- a) Explain the preliminary procedures you would carry out upon your appointment. (6 marks)
- b) What is the importance of a preliminary review? (4 marks)
- c) Why is it important for the auditor to hold discussions with the client's senior staff?  
(6 marks)
- d) State why it is important for an incoming auditor to hold consultations with the outgoing auditor. (4 marks)

#### **QUESTION FIVE ( 20 MARKS)**

- a) Why is an external audit necessary for companies registered under the Companies Act?  
(3 marks)
- b) Under what circumstances is one ineligible for appointment as an auditor of a company?  
(4 marks)
- c) Explain the procedure a company has to follow when changing its auditors. In your discussion explain 'dismissal' and 'appointment' of auditors by a company? (8 marks)
- d) List the rights and duties of an independent auditor. (5 marks)