



KIBABII UNIVERSITY

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

MAIN EXAM

THIRD YEAR SEMESTER TWO

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA322/BBM320

COURSE NAME: PRINCIPLES OF AUDITING

DATE: 8TH OCTOBER, 2021

TIME: 9.00AM – 11.00AM

KIBABII UNIVERSITY Observes ZERO tolerance to examination cheating

Answer question **ONE** and anyother **TWO** questions

Duration: 2 Hours

SECTION A

QUESTION ONE

Sun City enterprise was formed on 1 October 2020 in order to export tea and coffee to European markets. The Directors are unsure as to their responsibilities and the nature of their relationship with the external auditors. The audit partner has asked you to visit the client and explain to the directors, the fundamental aspects of the accountability of the directors and their relationship with the auditor.

Required:

Explain to the directors of Rest Mount Kenya Ltd.

- a. The need for an audit (6 marks)
- b. Procedures for the appointment of an auditor of a public company under the Companies Act. (5 marks)
- c. Directors responsibilities in relation to the accounting function of the Company (4 marks)
- d. Auditors' statutory responsibilities in relation to the audit of the company's financial statements (5 marks)
- e. Explain the following terms:
 - (i) Materiality; (2marks)
 - (ii) The duty of confidentiality (2 marks)
 - (iii) Professional indemnity insurance; (2 marks)
 - (iv) Peer review; (2 marks)
 - (v) Quality Control; (2 marks)

QUESTION TWO

- a. Briefly explain two practical circumstances when the auditor may be liable for damages arising from material misstatements in published financial statements on which the auditors have expressed an audit opinion. (6 marks)
- b. List the classes of persons who may make a successful legal action against the auditors negligence.(4 marks)
- c. Explain how an audit firm can minimise its potential legal liability for professional negligence.

(10 marks)

QUESTION THREE

During the course of the audit, the auditor may need to consider audit evidence in the form of reports, opinions, valuations or statements from specialists.

Required:

- a) List four examples of situations where an auditor may wish to rely upon the report of a specialist. (8 marks)
- b) Describe the principles or factors which the auditor should consider when placing reliance on audit evidence provided by specialists. (12 marks)

QUESTION FOUR

Write brief notes on the following:

- a. Final or completed audit: (5 marks)
- b. Interim audit (5 marks)
- c. Continuous audit; (5 marks)
- d. Balance Sheet audit (5 marks)