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**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**  
**FORTH YEAR FIRST SEMESTER**  
**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF EDUCATION**

**COURSE CODE:BBM 450 E**

**COURSE TITLE: AUDITING AND INVESTIGATIONS**

**DATE: 19<sup>TH</sup> JULY,2021**

**TIME: 9.00AM – 11.00AM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question **One** and any other **Two (2)** Questions

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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

## SECTION A

### QUESTION ONE (COMPULSORY)

Waflex Kenya Ltd. 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 Waflex Kenya Ltd.

- (a) The need for an audit (4 Marks).
- (b) Auditors' statutory responsibilities in relation to the audit of the company's financial statements. (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. (8 marks)
- (e) State and explain some of the circumstances that may threaten the independence of the external auditor (6 Marks).

## SECTION B (CHOOSE ANY TWO QUESTIONS)

### QUESTION TWO

- (a) International Standard on Auditing 300, (*Planning an Audit of Financial Statements*) states that an auditor must plan the audit. Explain why it is important to plan an audit. (6 Marks).
- (b) List and describe financial statement assertions, other than completeness, used by auditors in the audit of financial statements. (6 Marks)
- (c) Explain the purpose of an engagement letter and list its contents (6 Marks)
- (d) ISA 230 Audit Documentation (Revised) establishes standards and provides guidance regarding documentation in the context of the audit of financial statements.

#### Required:

- a) List the purposes of audit working papers. (2 marks)

### QUESTION THREE

- (a) The external auditor can only rely on the work of the internal auditor as one element of the internal control system. State and explain the factors to consider before relying on the work of the internal auditor (8 Marks)
- (b) An internal control system consists of all the policies and procedures (internal controls) adopted by management of an entity. Describe the importance of the internal control systems in a company (6 Marks).
- (c) The Auditors Operational Standard requires the auditor to obtain 'relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusions therefrom.

#### Required:

- a. What is audit evidence? (2 Marks)
- b. Explain the meaning of the following terms;
- (i) Relevant audit evidence (2 Marks)
- (ii) Reliable audit evidence (2 Marks)

### QUESTION FOUR

- (a) The responsibilities of internal and external auditors in relation to the risk of fraud and error differ. Explain the responsibilities of external auditors in respect of the risk of fraud and error in an audit of financial statements. (8 Marks)
- (b) Discuss the actions the auditor may take as a result of the decision made by the directors not to sign the letter of representation. (6 Marks)
- (c) Audit sampling is a technique for drawing conclusions about the characteristics of a population by testing a sample drawn therefrom. Internal and external auditors use it for both tests of controls, and substantive testing.

#### Required:

Describe the following:

- i. Judgment sampling and statistical sampling (2Marks)
- ii. A representative sample (2 Marks)
- iii. Tolerable error (2 Marks)

## QUESTION FIVE

The Companies Act (Cap.486) sets out the duties of the auditors for a company in respect of his report and other matters.

**Required:**

- (a) State four situations under which the Act requires auditors to qualify their report (8 Marks)
- (b) State two circumstances in which the auditors may qualify their report owing to inherent uncertainty. ( 4Marks)
- (c) State four types of circumstances in which the auditors may qualify their report as a result of disagreement with the directors (8 Marks)