



KIBABII UNIVERSITY

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

THIRD YEAR SEMESTER TWO

FOR THE DEGREE OF BACHELOR OF EDUCATION

COURSE CODE: BBM320

COURSE NAME: Principles of Auditing-SCHOOL BASED

Duration: 2 Hours

Date: 21/07/2021

TIME: 9.00AM

KIBABII UNIVERSITY Observes ZERO tolerance to examination cheating

Answer question **ONE** and any other **TWO** questions

QUESTION One

Your firm has been approached by the directors of UB Bank Ltd. a newly formed commercial bank to undertake the audit for its first complete financial year ended 31 December 2019. Your manager has assigned you the responsibility for leading the team. You have had various discussions with the directors about the timetable and the respective responsibilities of management and the auditor. You have drafted a letter of engagement and have sent it to the managing director for approval and acceptance but the management has not yet responded to your letter.

Required:

- a) Explain why a letter of engagement is sent before any new audit appointment is accepted. (5marks)
- b) Set out the main contents of a letter of engagement. (5 marks)
- c) Itemise the actions you would take in response to the non-reply by the management to your draft engagement letter. (5 marks)
- d) State when it might be necessary to re-draft an engagement letter and have it re-affirmed by the client's management. Members of the accounting profession in common with other professions have taken steps to reduce professional risk as far as possible.

Required:

- i. With reference to accounting profession, what is audit risk? (5marks)
- ii. Outline the steps that the Institute of Certified Public Accountants of Kenya as taken to reduce the individual auditor's exposure to risk. (5 marks)
- iii. Suggest specific actions an individual auditor or audit firm could take to minimise liability arising from audit risk.
(5marks)

Question Two

- a) 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? (3 marks)
- b. Explain the meaning of the following terms;
- Relevant audit evidence (2 marks)
 - Reliable audit evidence (3 marks)
 - Sufficient audit evidence. (3 marks)
- b) Explain whether the following types of audit evidence meets the standards of relevancy, reliability and sufficiency as required by the auditors operational standard with regard to:
- Written confirmation of a trade debtor circularised at year end; (3 marks)
 - Work-in-progress stocks identified during the annual physical stock count; (3 marks)
 - Solicitor's letter confirming pending legal action; (3 marks)

Question Three

Restmount Kenya Ltd. was formed on 1 October 2019 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 Restmount 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)

Question Four

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 auditor's negligence. (4 marks)

c. Explain how an audit firm can minimise its potential legal liability for professional negligence. (10 marks)