



*(Knowledge for Development)*  
**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**FOURTHYEAR SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCA 450E**

**COURSE TITLE: AUDITING AND INVESTIGATIONS**

**DATE: 24<sup>TH</sup> MAY, 2022**

**TIME: 2.00PM – 4.00PM**

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**INSTRUCTIONS TO CANDIDATES**

*Answer Question One in Section A and Any other TWO (2) Questions in Section B*

TIME: 2 Hours

**KIBU observes ZERO tolerance to examination cheating**

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

### **QUESTION ONE (COMPULSORY)**

- a) List and describe six financial statement assertions, other than completeness, used by auditors in the audit of financial statements. (12marks)
- b) Differentiate control environment from control procedures (4marks)
- c) In what ways does internal audit differ from external audit (4marks)
- d) Explain four ways in which internal controls can minimise Fraud (8marks)
- e) List three factors that lead to qualification of an Audit Report (3marks)
- (Total 30marks)**

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

#### **QUESTION TWO**

Durian Agri marketing Ltd. was formed on 1 October 2008 in order to export French beans and chillies 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 Durian Agri marketing Ltd.

- a. The need for an audit (4marks)
- b. Procedures for the appointment of an auditor of a public company under the Companies Act. (6marks)
- c. Directors responsibilities in relation to the accounting function of the Company. (4marks)
- d. Auditors' statutory responsibilities in relation to the audit of the company's financial statements. (6marks)
- (Total 20marks)**

#### **QUESTION THREE**

Elimu Bora is a charity whose constitution requires that it raises funds for educational projects. These projects seek to educate children and support teachers in certain countries. Charities in the Country from which Elimu Bora operates have recently become subject to new audit and accounting regulations. Charity income consists of cash collections at fund raising events, telephone appeals, and bequests (money left to the charity by deceased persons). The charity is small and the trustees do not consider that the charity can afford to employ a qualified accountant.

The charity employs a part-time bookkeeper and relies on volunteers for fund raising. Your firm has been appointed as accountants and auditors to this charity because of the new regulations. Accounts have been prepared (but not audited) in the past by a volunteer who is a recently Retired Chartered Certified Accountant.

#### **Required:**

- a) Describe the risks associated with the audit of Elimu Bora under the headings inherent risk, control risk and detection risk and explain the implications of these risks for overall audit risk. (10 marks)
- b) List and explain the audit tests to be performed on income and expenditure from fund raising events. (10marks)
- (Total 20marks)**

#### **QUESTION FOUR**

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. Explain four situations under which the Act requires auditors to qualify their report.(8marks)
- b. State two circumstances in which the auditors may qualify their report owing to inherent uncertainty. (2marks)
- c. State and explain four types of circumstances in which the auditors may qualify their report as a result of disagreement with the directors (8marks)

**(Total 20marks)**

#### **QUESTION FIVE**

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 (20marks)

**(Total 20marks)**