



KIBABII UNIVERSITY

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEAR SEMESTER TWO

SPECIAL/SUPPLEMENTARY EXAMS

FOR THE DEGREE OF BACHELOR OF EDUCATION

COURSE CODE: BBM320

COURSE NAME: PRINCIPLES OF AUDITING

DATE: 12TH JANUARY, 2022

TIME: 2.00PM – 4.00PM

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20 marks** each.

Duration: 2 Hours

KIBABII UNIVERSITY Observes ZERO tolerance to examination cheating

SECTION A

QUESTION ONE

- Explain the meaning and importance of the letter of engagement. What are the usual contents of the letter of engagement? (6 marks)
- b. Describe the procedures which should be followed by the directors of a company wishing to appoint a new auditor to replace the present auditor under the following circumstances:
- The auditor has resigned and he does not wish to be re-appointed. (6 marks)
 - The auditor has disagreed with the directors because he has issued a qualified report on the accounts (8 marks)
- c. What are the rights of an outgoing auditor? (6 marks)
- d. Why is an external audit necessary for companies registered under the Companies Act? (4marks)

SECTION B

QUESTION TWO

- a) Outline the benefits that can be derived by an auditor from the successful employment of statistical sampling techniques as opposed to non-statistical sampling. (10 marks)
- b) Under what conditions is statistical sampling likely to prove most successful in an audit? (10 marks)

QUESTION THREE

- a) Before deciding whether to rely on the work of the internal audit function with the intention of reducing audit procedures the external auditor should evaluate the internal audit function to determine the scope of the function, its independence and hence how much reliance that can be placed on the work that it carries out. The external auditor can only rely on the work of the internal auditor as one element of the internal control system.

Required;

In evaluating this function the external auditor should consider the certain factors: State and explain the factors to be considered. (12 marks)

- b) The auditor should consider the audit approach he wishes to adopt, including the extent to which he may rely on internal controls and any aspects of the audits, which need particular attention. Describe matters to consider by the auditor in developing overall audit plan. (8 marks)

QUESTION FOUR

- a) The scope and objectives of internal audit depends on the size and structure of the entity and the responsibility assigned to it by management. Discuss the activities that must be included in the scope and objectives of internal audit during performing their duties. (10marks)
- b) Describe what action an auditor should take when he/she discovers that internal control system is weak. (10marks)