



(Knowledge for Development)

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF EDUCATION**  
**COURSE CODE: BDM 450**

**COURSE TITLE: AUDITING AND INVESTIGATION**

**DATE: 12<sup>TH</sup> JANUARY, 2022**    **TIME: 2.00pm - 4.00pm**

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**INSTRUCTIONS TO CANDIDATES**

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.

**TIME: 2 Hours**

**SECTION A (COMPULSORY)**  
**QUESTION ONE**

Auditors may be liable to the shareholders and other interested parties who may have relied on the financial statements upon which the auditors have expressed an opinion. This is because auditors are generally taken as owing a duty of care to those parties and could be liable in tort of negligence if they failed in that duty.

**Required:**

- a) With reference to the external audit assignment, explain the meaning of the term “ duty of care”  
(4 marks)
- b) Explain the essential elements required to prove negligence on the part of the auditor (6 marks)
- c) Outline the ways in which an auditor may be held criminally liable in the course of his audit duties  
(8 marks)
- d) ~~Examine the defenses available to the auditor in the court of law who has been sued for failure to detect fraud in the client’s financial statements~~  
(6 marks)
- e) Explain the ways in which the directors of the firm could discharge their duty towards the prevention and detection of fraud and errors  
(6 marks)

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

**QUESTION TWO**

You are the managing partner of Rashid and Associates – Certified Public Accountants. Mzalendo Ltd has engaged your firm to provide financial and other associated services to the company by expressing a conclusion regarding the quality of the subject matter.

**Required:**

- a) Identify the key elements of an assurance engagement (5 marks)
- b) Explain the engagement risks that face a professional accountant who accepts an assurance engagement  
(4 marks)

- c) Explain why an absolute level of assurance may not be given and the circumstances in which a reasonable assurance can be given  
(5 marks)
- d) Identify and explain the potential threats to the independence of an accounting firm involved in assurance engagements  
(6 marks)

### QUESTION THREE (20 marks)

The Institute of Certified Public Accountants of Kenya (ICPAK), defines auditing as 'the independent examination of, and expression of opinion on the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation'.

#### Required:

- a) Examine the fundamental principles according to which books of accounts and financial statements of an entity are audited  
(10 marks)
- b) Indicate the circumstance under which an auditor would deem financial statements of an entity to reflect a true and fair view of its state of affairs in the period under review  
(10 marks)

### QUESTION FOUR

The international Auditing Practices Committee requires that doubts about the going concern presumption be detected and adequately disclosed in the financial statements and Auditors' reports.

#### Required:

- a) Examine the factors that might cast doubt on the going concern status of the company

(6 marks)

- b) Describe the procedures the auditor should undertake in order to obtain sufficient audit evidence to be able to form an opinion on the going concern status of the company

(8 marks)



- c) Indicate how the responsibilities of an auditor regarding the going concern status of the company could be extended  
(6 marks)

**QUESTION FIVE (20 marks)**

Present day approach to auditing is called risk based auditing.

**Required:**

- a) Define the term risk based auditing and indicate why it has been adopted in the present day audit  
(8 marks)
- b) Suggest factors that an auditor should bear in mind when assessing the inherent and control risks of the company  
(6 marks)
- c) Risk based auditing is often associated with the use of statistical sampling techniques. Explain the circumstances under which statistical sampling technique would either be appropriate or inappropriately associated with risk based auditing  
(6 marks)