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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA 320/BCA322/BBM311

COURSE TITLE: PRINCIPLES OF AUDITING

DATE: 15TH JULY 2022 **TIME :** 2.00PM - 4.00PM

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

KIBU observes ZERO tolerance to examination cheating

SECTION A (COMPUSORY)

QUESTION ONE (30 MARKS)

Mkulima Limited, a sugar processing company was established in June 2016. Its directors requires you to enlighten them on their responsibilities and the nature of their relationship with the external auditors.

Required:

- a) Explain to the directors of Mkulima Limited why there is need for an external audit (5 marks)
- b) Examine the responsibilities of the company directors in relation to the accounting function of the company (10 marks)
- c) What would you consider to be the role of an external auditor in detection and prevention of fraud and errors within an organization (10 marks)
- d) Explain why auditors send a letter of engagement to clients before they carry out the first audit (5 marks)

SECTION B (ANSWER ANY TWO QUESTIONS)

QUESTION TWO (20 MARKS)

- a) Explain the importance of the concept of the professional independence to the auditor (5 marks)
- b) Describe the statutory and ethical matters you would consider and investigations you would undertake before accepting an appointment as a company auditor (15 marks)

QUESTION THREE (20 marks)

The internal control system encompasses all policies and procedures adopted by the management of an entity to assist it in achieving management objectives

Required:

- a) Examine five yardsticks that can be used to evaluate the effectiveness of the internal control system of an organization (10 marks)
- b) Briefly explain five control objectives that an internal control system over sales aims to achieve (10 marks)

QUESTION FOUR (20 marks)

Audit planning entails allowing the audit senior to acquire adequate knowledge about the entity. This process ensures an effective control and review of audit work.

Required:

- a) State the matters you would consider in planning the audit prior to the commencement of the detailed audit work (12 marks)
- b) Indicate how planning aids in the conduct of an audit (8 marks)

QUESTION FIVE (20 marks)

Audit sampling is a technique for drawing conclusions about the characteristics of a population by testing a sample drawn from internal and external auditors for both test of control and substantive testing.

Required:

- a) Describe the main factors which influence the auditor in determining the size of the sample he will use for his detailed testing (10 marks)
- b) Indicate areas where judgment will be exercised by the auditor when using statistical sampling (10 marks)

QUESTION SIX (20 marks)

- a) In the context of a computer based auditing system, explain what's meant by :

- i) Auditing around the computer (2 marks)
 - ii) Auditing through the computer (2 marks)
 - iii) Explain the controls that can be established over completeness of input (6 marks)
- b) Critically evaluate the provisions under the companies Act which an auditor is required to disclose in his audit report (10 marks)