



**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**  
**THIRD YEAR SEMESTERTWO**  
**MAIN EXAM**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BBM320/BCA322**

**COURSE NAME: PRINCIPLES OF AUDITING**

Date: 03/08/2021 TIME: 9.00 – 11.00 a.m

KIBABII UNIVERSITY Observes ZERO tolerance to examination cheating

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Answer question **ONE** and anyother **TWO** questions

Duration: 2 Hours

### QUESTION ONE

- a. 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)

### 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