



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

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

Restmount Kenya Ltd. was formed on 1 October 2018 in order to export tea and coffee 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 Restmount Kenya Ltd.

- a. The need for an audit (6 marks)
- b. Procedures for the appointment of an auditor of a public company under the Companies Act. (5 marks)
- c. Directors responsibilities in relation to the accounting function of the Company (4 marks)
- d. Auditors' statutory responsibilities in relation to the audit of the company's financial statements (5 marks)

QUESTION FOUR

- a. Briefly explain two practical circumstances when the auditor may be liable for damages arising from material misstatements in published financial statements on which the auditors have expressed an audit opinion. (6 marks)
- b. List the classes of persons who may make a successful legal action against the auditor's negligence. (4 marks)
- c. Explain how an audit firm can minimise its potential legal liability for professional negligence. (10 marks)