



KIBABII UNIVERSITY
MAIN CAMPUS
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
FOURTH YEAR SEMESTER ONE
FOR THE DEGREE OF BACHELOR OF EDUCATION (REGULAR)
MAIN EXAMINATION

COURSE CODE: BBM450E

COURSE NAME: AUDIT AND INVESTIGATION

Duration: 2 Hours

Date: 27/05/2022

TIME: 11.00 – 1.00 p.m

KIBABII UNIVERSITY Observes ZERO tolerance to examination cheating

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

QUESTION ONE

Public attention has been focused on Corporate Governance (the action, manner and system of governing) and especially the financial aspects for reasons including.

1. The collapse of many large companies without warning.
2. Concern about standards of financial reporting, where companies especially banks have in the past carried large amounts of non-performing debtors as good debtors.
3. Lack of accountability due to the companies being run by dominant characters.
4. Raids on company pension schemes by companies in financial difficulties.
5. Apparently excessive directors pay, the rates of which seem to be fixed by the recipients themselves.
6. Some notable frauds and incidents of insider trading.
7. A feeling threat auditors are too close to their clients and as a result not carrying out effective audit work.
8. Looseness of accounting standards.
9. The practice of opinion shopping where companies allegedly seek auditors who will agree with them.
10. The expectations gap which the investing public does not understand the rather limited role of the auditor. The public expects that the auditor should go beyond the law and practice especially in the area of fraud and future financial inability.

Required:

- a) Discuss any five reasonable suggestions on the possible steps that organizations and the accounting profession can take to address the above concerns. (10 marks)
- b) List five factors that indicate the company's going concern uncertain (5 marks)
- c) Describe any five further investigations you would carry out to decide:
 - (i) Whether the company is a going concern (5 marks)
 - (ii) Whether it has a reasonable chance of recovering from the going concern problems. (10 marks)

Your answer should include details of checks you would carry out in verifying the company's profit and cash flow forecasts. **(Total: 30 marks)**

QUESTION TWO

The following quotations are extracted from the International standards of auditing in a computer information systems environment.

1. Some computer information systems are designed so that a complete transaction trail that is useful for audit purposes might exist for only a short period of time or only in computer readable form, where a complete application system performs a large number of processing steps, there may not be a complete trail. Accordingly, errors embedded in an applications, program logic may be difficult to detect on a timely basis by manual (user) procedure.
2. Many control procedures that would ordinarily be performed by separate individuals in manual systems may be concentrated in computer information systems. Thus, as an individual who has access to computer programs? Processing of data may be in a position to perform incompatible functions.
3. The ease of processing and analyzing large quantities of data using computer may provide by the auditor with opportunities to apply general or specialize computer audit techniques and tools in the execution of audit tests.
4. The auditor would have sufficient knowledge of the computer information systems to plan, direct, supervise and review the work performed. The auditor should consider whether specialized computer information systems skills are needed in an audit. These may be needed to.

Obtain sufficient understanding of the accounting and internal control system affected by the computer information systems environment. Design and perform appropriate tests of control and substantive procedures.

Required:

- (a) Explain any three of the phrases, a computer transaction trail and errors embedded referred to above and state in respect of each an example of the way in which the auditor might attempt to overcome the problems in stock control systems arising from these two possibilities.

(6 marks)

(b) Briefly outline the important aspects of segregation of functions that become necessary in computer information systems particularly a large organization with a centralized computer-based accounting system. (4 marks)

(c) Briefly state two computer assisted audit techniques (CAATS), which the auditor can use in the audit of the above case. (4 marks)

(d) Explain the words "tests of control", "application control" and "general control" in the computer audit context. Illustrate your answer by obtaining one relevant test of control on"

(i) An application control: and

(ii) A general control

(6 marks)

(Total: 20 marks)

QUESTION THREE

Modern approach to auditing called risk-based auditing is a most welcome development.

Required:

(a) Define the term risk-based auditing.

(3 marks)

(b) Explain what is meant by the terms:

(i) Inherent risk

(ii) Control risk

(iii) Detection risk

(3 marks)

(c) List three factors, which the auditors should bear in mind when assessing the inherent risk and control risk (audit risk) of a company). (6 marks)

(d) Explain why there has been an increased use of risk-based auditing approach in recent years and what advantages for the auditors from the adoption of such an approach.

(4 marks)

(e) Risk-based auditing is often associated with the use of statistical sampling techniques in auditing. Explain why the risk based auditing and statistical sampling techniques are associated. Give an illustration of the circumstances under which statistical sampling techniques are either appropriate or not

appropriately associated to risk based auditing.

(4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) List ten stages of fraud investigations' (5 marks)

(b) Ushirika hardware is a small wholesale firm dealing in hardware items. You have just received a telephone call from the owner manager telling you that his cashier who is also the bookkeeper was responsible for the receipt and payment of cash and the payment of wages has not reported to work for the last three days. During the discussion the owner manager informs you that he suspects some irregularities with regard to both the receipt and payments of cash.

Required:

Tabulate seven point programme for investigation of the possibility and extent of any defalcation of cash that may have taken place. (15 marks)

QUESTION FIVE

Nyama Safi Company has been in operation since early 1970s buying live animals for slaughter and sale of meat and meat products. Due to stiff competition from small and medium meat companies, the company experienced losses. In December 2018 a receiver was appointed by a creditor under powers in a loan agreement, which gave a floating charge. A resolution to wind up the company voluntarily was passed on 10 January 2020, when the liquidator was appointed.

You were subsequently appointed to audit the liquidation and receivership accounts mainly the receiver's and liquidators statements of accounts

You have discovered that:

1. Assets were sold at below market value through an appointed auctioneer. The auction firm belongs to the wife of one of the directors of Nyama Safi Company.
2. A year ago, some of the assets, mainly Mercedes Benz and Pajero cars, were sold to the directors at net book values, which were much below the realizable market values.

Required:

(a) State any five audit responsibilities in relation with the audit of liquidation and receivership. (10 marks)

(b) Indicate five the action you would take to verify the values of the assets in the cases above

(10 marks)