



(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

MAIN EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DAB 103

COURSE TITLE: PRINCIPLES OF AUDITING

DATE: 19TH DECEMBER, 2022 TIME: 9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question one carries 30 marks and each of the other two questions carry 20 marks each.

KIBU observes ZERO tolerance to examination cheating
This Paper Consists of 2 Printed Pages. Please Turn Over.

SECTION A

QUESTION ONE

- a) Identify the potential users of audited financial statements. (12 marks)
- b) What are the specific needs of the potential users of audited financial statements you have identified in (a) above? (12 marks)
- c) An auditor is required to state whether, in his opinion proper books of account have been kept and whether the financial statements give a true and fair view of the state of the financial affairs of the company being audited. What are the consequences, to the auditor, for giving an unqualified opinion, when he knows that there are material inaccuracies in financial statements? (6 marks) (Total: 30 marks)

SECTION B

(Choose any two Questions)

QUESTION TWO

- a) Why is an external audit necessary for companies registered under the Companies Act? (3 marks)
- b) Under what circumstances is one ineligible for appointment as an auditor of a company? (4 marks)
- c) Explain the procedure a company has to follow when changing its auditors. In your discussion explain 'dismissal' and 'appointment' of auditors by a company? (8 marks)
- d) List the rights and duties of an independent auditor. (5 marks)
- (Total: 20 marks)

QUESTION THREE

- a) List and explain the professional ethics that the auditor is expected to adhere to. (12 marks)
- b) What is the purpose of an engagement letter? (8 marks)

(Total: 20 marks)

QUESTION FOUR

- a) What is the difference between internal audit and external audit? (6 marks)
- b) List four elements of internal control. (8 marks)
- c) What are the factors that are responsible to the growth of the internal audit function? (6 marks)

(Total: 20 marks)

QUESTION FIVE

- a) In the context of a computer based accounting system, explain the meaning of the following terms:
 - i. Application controls; (4 marks)
 - ii. General controls (4 marks)
- b) Explain the importance of having proper systems documentation (6 marks)
- c) A Company wishes to change from an old computerized system to a new computer based accounting system. Explain how and why both systems should run parallel prior to the change over to the new system. (6 marks)

(Total: 20 marks)