



(Knowledge for Development)

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2021/2022 ACADEMIC YEAR**  
**THIRD YEAR SECOND SEMESTER**  
**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF EDUCATION**

**COURSE CODE: PRINCIPLES OF AUDITING**

**COURSE TITLE: BBM320**

**DATE: 14<sup>TH</sup> NOVEMBER, 2022**

**TIME: 2.00PM - 4.00PM**

**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

### QUESTION ONE

a) An auditor should form an opinion on the adequacy of the accounting treatment of an inherent uncertainty disclosed in the financial statements of a company.

i) What is meant by the term “inherent uncertainty”? (4marks)

ii) Explain four treatment of inherent uncertainties in the auditor’s report. (8 marks)

b) Summarize eight principal contents of a statement of directors ‘responsibilities to be included in financial statements. (8 marks)

c) Explain five steps an auditor should take if he concludes that the client has made a departure from an accounting standard in the preparation of the financial statements. (10 marks)

**(Total: 30 marks)**

### QUESTION TWO

a) The computerization of business operations has posed many challenges to the auditor.

Explain four difficulties experienced by an auditor in each of the following situations:

i) In the use of test packs. (4 marks)

ii) In on-line systems. (4 marks)

iii) When auditing the output of a complex computerized system. (6 marks)

b) Briefly explain how an auditor verifies the following items in a computerized system.

i) Standing data in a master file (3 marks)

ii) Alterations made in the computer programs. (3 marks)

**(Total: 20 marks)**

### QUESTION THREE

You are an audit senior in a firm of practicing accountants and your manager has gone out for an urgent meeting with a partner. Mr. Charo, a manager with Charo and Company, a wholesale business has come to your office with a request that your firm becomes their auditors.

Required:

a) Describe five factors to Mr. Charo the legal, ethical and practical factors your firm would consider before accepting the appointment. (10 marks)

b) Explain five factors to Mr. Charo the qualification and disqualification of an accounting firm under the provisions of the Companies Act to become auditors. (10 marks)

**(Total: 20 marks)**

#### **QUESTION FOUR**

The cashier of a firm who also acts a bookkeeper has been suspected of dishonesty.

The books have not been audited for the last nine months.

You have been asked to investigate the records to establish whether the cashier has committed a fraud.

Required:

Discuss ten factors on how you would proceed with the investigation. **(Total: 20 marks)**

#### **QUESTION FIVE**

It has often been said that the auditors 'report is the formal result of all his efforts. This being the case, it is very important that the reader well understands the meaning of the Audit Report, particularly where the auditor wishes to qualify his opinion on the financial statements.

Required:

a) Under statutory provision, what are the main six contents of the auditors 'report? (6 marks)

b) Explain five evidences how the international standards on auditing attempt to ensure that the report of the auditors is clearly understood.(8 marks)

c) Describe clearly three circumstances in which an adverse opinion and a disclaimer of opinion would be appropriate and give two examples, one each, to illustrate your answer. (A full audit opinion is not required). (6 marks)

**(Total: 20 marks)**