



*(Knowledge for Development)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**FOURTH YEAR FIRST SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF EDUCATION/COMMERCE**

**COURSE CODE: BBM 450E**

**COURSE TITLE: AUDITING AND INVESTIGATION**

**DATE: 15<sup>TH</sup> NOVEMBER, 2022**

**TIME: 2.00PM – 4.00PM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One and any other TWO (2) Questions

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.

TIME: 2 Hours

### QUESTION ONE

- a) With reference to appropriate auditing guidelines and operational standards, discuss the extent to which the auditor can rely on representations made by management which are not capable of independent verification by the auditor.....13mks
- b) Recently the central bank of Kenya issued a guideline to banks and non-bank financial institutions advising them to consider setting up audit committees:

Required:

- i) The purpose and objectives of an audit an audit committee.....5mks
- ii) Composition of an audit committee.....2mks
- iii) Responsibilities of an audit committee.....6mks
- iv) The relationship between the audit committee and the external auditors.....2mks
- v) The relationship between the audit committee and the board of directors.....2mks

### QUESTION TWO

- a) Explain the procedures for the appointment of auditor by sole trader or partnership.8mks
- b) It has been alleged that businesses fail due to bad management, not bad auditing and the auditor gets blamed and sued only because he is insured for such eventuality.

Required:

Discuss the above allegation and reach a conclusion.....12mks

### QUESTION THREE

- a) Explain the concept of audit trail.....4mks
- b) The usual implication of on-line computer system is that the user can have direct access to the master files within the system, through the medium of a terminal.

Required:

- a) Describe the potential control weaknesses,specific to on-system.....6mks

- b) Details the methods that can be adopted to overcome these weaknesses.....10mks

**QUESTION FOUR**

- a) Distinguish between auditing and investigation.....4mks
- b) A large garden centre has opened in the outskirts of Nairobi for the sale to the public of trees, plants, shrubs and garden sundries and for undertaking of landscape gardening.it is operating as a nursery for the growing of the trees, plants and shrubs and is also acting as stockist for the same.

**REQUIRED:**

As a newly appointed auditor, what are the principal matters to which you are likely t need to give your attention when auditing the first year's accounts of the business?.....16mks

**QUESTION FIVE**

- a) You have recently read the Kenya auditing guideline no.16 concerning related party transactions. What is meant by this term and what steps should be incorporated into your audit work to minimize the risk of such events being undetected by your firm? Illustrate your answer with examples of related parties and type of transactions.....16mks
- b) State 4 features of Kenyan auditing standard 1(KAS1).....4mks