



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER
MAIN EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT

COURSE CODE: BCA322

COURSE TITLE: PRINCIPLES OF AUDITING

DATE: 21ST APRIL, 2023 TIME: 9.00AM – 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE

- a) During the year, your firm has been approached by the directors of UB Bank Ltd. a newly formed commercial bank to undertake the audit for its first complete financial year ended 31 December 2022. Your manager has assigned you the responsibility for leading the team. You have had various discussions with the directors about the timetable and the respective responsibilities of management and the auditor. You have drafted a letter of engagement and have sent it to the managing director for approval and acceptance but the management has not yet responded to your letter.

Required

- i. Itemize the actions you would take in response to the non-reply by the management to your draft engagement letter (8 marks)
 - ii. Describe the matters to consider within your firm and the other procedures that must be undertaken before accepting the appointment as auditor to a new client (4 marks)
- b) You are an audit manager in Siadi & Co, a firm of Chartered Certified Accountants in Kisian. You are preparing the engagement letter for the audit of Ancients; a public limited liability company, for the year ending 30 June 2022. Ancients has grown rapidly over the past few years, and is now one of your firm's most important clients. Ancients has been an audit client for eight years and Siadi & Co has provided audit, taxation and management consultancy advice during this time. The client has been satisfied with the services provided, although the taxation fee for the period to 31 December 2021 remains unpaid. Audit personnel available for this year's audit are most of the staff from last year, including Mrs. Diana, an audit partner and Mr. George, an audit senior. Mr. George has been the audit partner since Ancients became an audit client. You are aware that Joy Grace, the daughter of Mrs. Diana, has recently been appointed the financial director at Ancients. celebrate her new appointment, Fredrick has suggested taking all of the audit staff out to an expensive restaurant prior to the start of the audit work for this year. In relation to this context, Identify and explain the risks to independence arising in carrying out your audit of previous for the year ending 30 June 2022, and suggest ways of mitigating each of the risks you identify (6 marks)
- c) ISA 315 states that the auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting. The time is now towards the end of the audit, and you are reviewing working papers produced by the audit team. An example of a working paper you have just reviewed is shown below.

Client Name: Denis & Co.

Working paper Payables transaction testing Year end 30 June 2017 Prepared by

Reviewed by

Audit assertion: To make sure that the purchases day book is correct. Method: Select a sample of 15 purchase orders recorded in the purchase order system. Trace details to the goods received note (GRN), purchase invoice (PI) and the purchase day book (PDB) ensuring that the quantities and prices recorded on the purchase order match those on the GRN, PI and PDB.

Test details: In accordance with audit risk, a sample of purchase orders were selected from a numerically sequenced purchase order system and details traced as stated in the method. Details of items tested can be found on another working paper.

Results: Details of purchase orders were normally correctly recorded through the system. Five purchase orders did not have any associated GRN, PI and were not recorded in the PDB. Further investigation showed that these orders had been cancelled due to a change in spectacle specification. However, this does not appear to be a system weakness as the internal controls do not allow for changes in specification.

Conclusion: Purchase orders are completely recorded in the purchase day book.

Explain why the working paper shown above does not meet the standards normally expected of a working paper (8 marks)

- d) By the end of this auditing work an auditor is expected to have covered the following, establish the meaning of:
- i. Error
 - ii. fraud
 - iii. Audit evidence (4 marks)

QUESTION TWO

- a) The responsibilities of internal and external auditors in relation to the risk of fraud and error differ. Explain the responsibilities of external auditors in respect of the risk of fraud and error in an audit of financial statements (10 marks)
- b) Describe the various responsibilities of the directors and auditors regarding the published financial statements. (10 marks)

QUESTION THREE

- a) Writes notes on the following auditing terms:
 - i. Sufficient appropriate audit evidence (4 marks)
 - ii. Substantive procedures (8 marks)
- b) Briefly, interpret the types of audit evidence meets the standards of relevancy, reliability and sufficiency as required by the auditor's operational standards (8 marks)
- c) There are a number of different methods of obtaining audit evidence. Methods include: Analytical procedures, Audit sampling, Tests of controls, and Detailed testing of transactions and balances. These methods overlap and may be used for different purposes during an audit of financial statements.
Explain the advantages and disadvantages of each of the five methods of evidence gathering listed above (8 marks)

QUESTION FOUR

- a) A suggested format for the letter of representation has been sent by the auditors to the directors of a client company. The directors have stated that they will not sign the letter of representation this year on the grounds that they believe the additional evidence that it provides is not required by the auditor.
Narrate the actions the auditor may take as a result of the decision made by the directors not to sign the letter of representation (12 marks)
- b) Interpret practical examples of audit tests for various elements of the income statement and the balance sheet in most auditing activities (8 Marks)

QUESTION FIVE

- a) Clifford & Co has a significant number of cash transactions and recent non-current asset purchases have been financed by a bank loan. This loan is repayable in equal annual installments for the next five years.
Discuss various substantive procedures that should be carried out on the bank balances in the company's financial statements (12 marks)
- b) Differentiate between internal audit and statutory audit (8 marks)