



GRE TSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY – APRIL 2017 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 304

COURSE TITLE: PRINCIPLES OF AUDITING

DATE: 4 APRIL 2017

TIME: 3.00 PM – 6.00 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A IS COMPULSORY

Q1a).

The director of one of your growing clients have decided to create an internal audit function in their organizational structure.

Required:

- i). List and briefly describe the duties you would expect the internal audit staff to perform. **(10mrks)**
- ii). List and explain the criteria which you would consider before deciding to rely on the work of the internal audit function. **(5mrks)**
- iii). State the extent to which you, as an external auditor, can rely on the work of the internal audit function. **(5mrks)**

b). Your firm of accountants has been the auditors of Leather Merchants Limited, a company that exports both raw and semi-finished leather products to European and Asian markets. The company has decided to introduce a comprehensive computerised system to manage its accounting and administrative functions.

Required:

- a) Outline the practical difficulties you would encounter as an auditor as a result of the proposed introduction of a computerised accounting system. **(10mrks)**
- b) Identify and explain the benefits that the company would derive as a result of putting in place a comprehensive computerised accounting system **(5mrks)**
- c). Elucidate on the circumstances under which the Directors of a company can appoint an Auditor. **(5mrks)**

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO

- a). Briefly explain the procedure for the appointment of an Auditor of any Limited Company **(12mrks)**
- b). Distinguish between the “except for” and the “subject to” audit opinions. **(8mrks)**

QUESTION THREE

In order to conduct an audit effectively and efficiently, an auditor should properly plan for the assignment

- i) Explain the matters that an auditor should take into account at the planning stage of an audit exercise **(8mrks)**
- ii) Outline the ways in which an auditor acquires knowledge about the client's business and industry **(4mrks)**
- iii) Professional ethics refers to the rules of conduct that govern the behavior of an accountant. Elaborate on Four codes of conduct expected of any professional Auditor. **(8mks)**

QUESTION FOUR

During the course of an audit, the auditor attempts to obtain sufficient relevant and reliable evidence to provide the satisfaction that the financial records are completed and accurate. One of the ways that the auditor obtains satisfaction is to select representative samples of transactions and balances for detailed testing, such samples being made using either statistical or non-statistical methods.

Required:

- a) Describe the main factors which influence the auditor in determining the size of the sample he will use for his detailed testing. **(12mrks)**
- b) Describe three areas where the judgment will be exercised by the auditor when using statistical sampling. **(8mrks)**

QUESTION FIVE

a). Audit planning involves developing a general strategy and a detailed approach for the expected nature, time and extent of the audit. Examine the key factors to consider when formulating an Audit plan. **(10mks).**

b). There has been a lot of Fraudulent cases in the Government Sector. As an Auditor, discuss some of the methods that you would recommend to be able to prevent Fraud in this sensitive sector.

(10mrks).