



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: BCAC 304**

**COURSE TITLE: PRINCIPLES OF AUDITING**

**DATE: 7<sup>TH</sup> AUGUST 2018**

**TIME: 11.30 AM – 2.30 AM**

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#### **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: COMPULSORY**

### **Question One**

- a) It is a rule in the companies' Act that companies must appoint or reappoint auditors every year end. Briefly set out the procedure for the appointment of an external auditor. **[15 marks]**
- b) An auditor is expected to deliver his duties without from other parties or conflict of interest . Explain the concept of professional independence to an auditor. **[5 marks]**
- c) Explain the meaning of the following:-(1) Qualified audit report  
(11)Fundamental uncertainty. **[5 marks]**
- d) The companies' Act guides that every company must lay before the members and the registrar of companies audited accounts every year. What are the Directors responsibilities in relation to the accounting function of a company? **[10 marks]**
- e) It is a requirement of the companies Act that every company must have their accounts audited annually. What is the need for an audit? **[5 marks]**

## **SECTION B: ANSWER ANY THREE QUESTIONS**

### **Question Two**

As a requirement every company is audited every year by qualified auditors. We have seen companies fail after they have been audited and given a clean deal of findings.

- a) Giving examples explain why companies fail even after being audited and given an unqualified report. **[15 marks]**
- b) Explain the difference between auditing and investigations. **[5 marks]**

### **Question three**

Voi Ltd was formed on 1<sup>st</sup> October 2015 in order to export minerals to the European markets. The Directors did not maintain proper records and thus some of the vital information is missing. The Directors are complaining of the outgoing auditors saying their work was just to look for errors and mistakes. As a qualified auditor advice the Directors as to:

- (a) What types of audit opinion would normally follow from a limitation in the scope of the audit and the main contents of a letter of engagement? **[10 marks]**
- (b) Whether an auditor is a watchdog or a bloodhound. **[10 mark]**

#### **Question Four**

The Directors of Komo Ltd have been suspended due to poor control of the company assets. New Directors have come in but are still wondering as to what control measures to put in place. You are the auditor of the company. Advise the Directors as to:

- (a) The types of controls required **[10 marks]**
- (b) The method the auditors use to obtain audit evidence **[10 marks]**

#### **Question five**

Elim co Ltd is a new company. The management of the company is contemplating on the books specified by the companies' act to the limited companies. Discuss with the management:

- (a) On the statutory books which every limited company must keep in order to comply with the companies act. **[10 marks]**
- (b) The stages of an audit, **[10 marks]**