



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

BACHELOR OF COMMERCE (ACCOUNTING)

COURSE CODE: BCAC 404

COURSE TITLE: AUDITING AND INVESTIGATIONS

DATE:

TIME:

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) State the respective responsibilities of the directors and management of a company and its external auditors with respect to the financial statements. **[6 marks]**

(b) Describe the inherent limitations facing auditors in undertaking their work. **[6marks]**

(Hint: Don not confuse inherent limitations with inherent risk)

(c) Describe the significant types of judgments made by auditors in:

i. Gathering evidence **[4 marks]**

ii. Arriving at an opinion on the financial statements. **[4 marks]**

(II) You are the auditor of Fixit Ltd. The company consists of a head office and a chain of 200 shoes repair and key-cutting kiosks. These kiosks are located in supermarkets and shopping centers and each is run by a single staff member who repairs shoes and cuts keys while customers wait. In an attempt to increase turnover, Fixit Ltd recently advertised that all workmanship in the kiosks would be guaranteed for three months. However, this additional service has not resulted in the expected additional sales. Management believes incremental revenue is being misappropriated by certain kiosk operators. In addition, it has come to your attention that various components, namely heels, soles and keys are being removed from kiosks by certain operators and sold to competitors. Instances have also been found where operators regularly repair shoes for friends without charging them. Although each kiosk has a register, controls and procedures in the chain are currently weak and head office management has asked for your advice on desirable internal control procedure.

Required:

Detail the internal control procedure you would expect to find that would provide adequate control over:

(a) Cash sales [10 marks]

(b) Stock [10 marks]

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

You are the audit manager at Zainabu and Associates responsible for the audit of the books of account of Ziwani Spares Ltd. In the course of the audit of the financial statements for the year ended 30 June 2004, your preliminary evaluation of the internal controls indicated that reliance could be placed on the system. However, compliance tests carried out during the audit disclosed that the system was not operating effectively. This situation has necessitated various amendments and additions to your original audit plan.

Required:

Describe the changes to be effected:

(a) During the interim audit. [13 marks]

(b) After the end of the financial year. [7 marks]

a)

Question three

You are the manager responsible for the audit of BCD Stores Ltd. which has a number of stores which sell household products to the general public, including furniture, electrical equipment, cooking equipment and carpets. The company has annual sales of about Sh.1,600 million. In previous years' audits, there have been problems with:

1. Misappropriations of inventory by employees and customers.
2. Slow moving and damaged goods which are worth less than cost, and
3. Incomplete recording of sales when the customers pay by cash (these represent 55% of all sales)

The company has a small internal audit department, the staff of which visit branches and perform appropriate audit work at the head office.

Required:

(a) Describe the work you will carry out and the matters you will consider in planning the audit prior to the commencement of the detailed audit work, including consideration of the timetable for the audit.

[12 marks]

(b) Describe the procedure you will carry out to control the audit including reviewing the work of the audit staff. **[8**

marks]

Question Four

Mwebeni Manufacturing Ltd. which has several branches in Kenya is proposing to install a new computer system. The finance director has asked you to suggest the controls which should be exercised over access to the computer system from remote terminals. All accounting data will be input into the computer from terminals and data from the branches transmitted to the main computer through the national telephone system.

Required:

a) Describe the general controls which may be established to prevent unauthorized access

to the computer system from the remote terminals. Your answer should consider the effectiveness and limitations of each type of control. **[8**

marks]

b) Describe the additional procedures which could be exercised to prevent unauthorized access to the computer system through the national telephone system. **[6**

marks]

c) Briefly describe the controls which should be implemented in the accounts payable and

payroll systems over:

i) Retrieval of information. **[2**

marks]

ii) Input of transaction data. **[2**

marks]

iii) Updating of standing data files. **[2**

marks]

Question five

- a) Differentiate between a business risk approach and an audit risk approach to auditing assignments. [4

marks]

- (b) The auditors and professional accountants are sometimes called upon to act as receiver managers and liquidators of companies.

Required:

- (i) Explain the risk faced by an auditor in his role as a receiver as opposed to the risk an auditor is exposed to when performing his role as the external auditor of a company.

[4 marks]

- (ii) Explain the matters that an auditor who has been appointed a receiver or liquidator should discuss with the appointing authority before accepting the appointment.

[6

marks]

- (iii) Identify the ethical and practical challenges faced by an auditor when performing the duties of receiver or liquidator; and in each case highlight the provisions of the professional ethics that may assist the auditor (in his capacity as receiver or liquidator) overcome such challenges.

[6

marks]