



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY-AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 304

COURSE TITLE: PRINCIPLES OF AUDITING

DATE: JULY 2023

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

Exotica Restaurant is planning to expand its operations so that they can open their services to the outsiders rather than only targeting internal staff. They have approached you to advise them on various ways of enhancing their operations.

a). Explain to the Exotica Restaurant on the concept of Internal controls, and the various controls they can put in place for efficient and smooth running of the restaurant. **[14 marks]**

b). Auditing is one of the key aspects that Exotica management should emphasize on. Explain to them the various Audit reports they can get from undertaking a rigorous audit process. **[12 marks]**

c). Describe to the management the procedure that auditors take in their audit process, to enable the management prepare adequately for it. **[14 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

a) The appointment of a statutory auditor is governed by the Companies Act. The company shareholders appoint the auditors and not the directors. However, in most cases during the AGM.

Required:

a) Examine the various Circumstances under which Auditors are appointed by;

i). Directors. **[8 marks]**

ii). Registrar of companies. **[4 marks]**

b) A retiring auditor shall be deemed to be re-appointed unless under specific instances. Explain. **[8 marks]**

a)

Question three

Gretsa University's Management has found it fitting to establish an Internal Audit Function.

Required:

a) Examine the key influencing factors that led to Gretsas Management making this noble decision.

[12 marks]

b) Explain the criteria which an external auditor would consider before deciding to rely on the work of the internal audit function.

[8marks]

Question Four

a). Explain the meaning of the term ‘audit evidence’

[4 marks]

b). Write a brief explanatory notes on the following terms in relation to audit evidence:

i. Relevance.

[2 marks]

ii. Reliability.

[2 marks]

iii. Sufficiency.

[2 marks]

c). Describe the various procedures of obtaining audit evidence giving an example of each by way of illustration.

[8 marks]

Question five

a). Upon appointments, Auditor’s attempt to identify and understand the internal controls that management has put in place. Discuss four key approaches used in ascertaining the internal control system.

[12 marks]

b). Management letters are common reports that auditors prepare as requested in their contract letters. Examine the main purpose of Management letters.

[8 marks]