



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY-APRIL 2025 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 304

COURSE TITLE: PRINCIPLES OF AUDITING

DATE: APRIL 2025

TIME:

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **TWO** 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

Auditors may be liable to shareholders and other parties who may have relied on the financial statements upon which the auditors have expressed an opinion. This is because the auditors are generally taken as owing a “duty of care” to those parties and they could be liable in the tort of negligence if they failed that duty.

Required

- a). With reference to the external audit assignment, explain the meaning if the term “duty of care”
[6 marks]
- b). Explain five possible measures that auditing firms should take in order to avoid legal actions for negligence against them.
[10 marks]
- c). Examine the key Principles that Govern Auditors in their assignments
[14 marks]

SECTION B: ANSWER ANY TWO QUESTIONS

Question Two

- a) Your firm of audit partners has been the auditors of Dago Traders Limited, a company that exports both raw and semi-finished leather products to Middle East and Asian markets. The company has decided to introduce a comprehensive computerized 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 computerized accounting system.
[12 marks]
- b) Explain the benefits that the company would derive as a result of putting in place a comprehensive computerized accounting system
[8 marks]

a)

Question three

- a). Examine the category of people who cannot be appointed as Auditors and clearly explain why each category is disqualified.
[12 marks]
- b). Arithmetic and Accounting controls are set of internal controls that check if transactions are correctly and accurately recorded to curb and minimize on fraud and possible errors. Explain the key features of Arithmetic and Accounting Controls.
[8marks]

Question Four

An internal control system is designed to provide reasonable assurance that all the control objectives are being achieved.

Required:

- a). What purpose does an internal control system serve in an organization?
[6 marks]

b). Explain the three key elements of a good internal control system.

[6 marks]

c). Explain any four inherent limitations of an internal control system.

[8 marks]

Question five

You have received a request from Kamaku Ltd. to accept an appointment as their auditor for the financial year ending 31 December 2022.

Required:

a). Explain the preliminary procedures you would carry out upon your appointment. [10 marks]

b). Explain why it is important for the auditor to hold discussions with the client's senior staff?

[10 marks]