



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BAC 303: PRINCIPLES OF AUDITING

DATE: 11/8/2021

TIME: 8.30-10.30 AM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) ISA 300 requires the auditor to plan an audit of financial statements. State the purpose of
- i. Establishing the overall audit strategy (2 marks)
 - ii. Developing an audit plan. (2 marks)
- b) Professional accountants have accepted the responsibility to act in public interest. The code of ethics for professional accountants has established five fundamental principles. State and describe the importance of each principle. (10 marks)
- c) Explain the meaning of the following terms as used in a financial audit.
- i. “True and fair view”
 - ii. Material misstatement
 - iii. Management assertions
 - iv. Working papers (8 marks)
- d) Auditor always plan for their audit engagement. Use four factors to describe the importance of planning before conducting an audit. (8 marks)

QUESTION TWO (20 MARKS)

- a) Internal controls system is of prime importance in an organization. State and explain the nature of the five components of internal controls as prescribed by Committee of Sponsoring Organizations (COSO). (10 marks)
- b) Neno company is a newly incorporated public company. Through its directors, the company has approached you for an audit engagement. Describe the legal and ethical procedures you would undertake before accepting appointment.. (10 marks)

QUESTION THREE (20 MARKS)

- a) Every company appoints a statutory auditor, at each general meeting to hold office until the conclusion of the next annual general meeting. Describe clearly four duties of the auditor. (6 marks)
- b) The quantity of information obtained by auditors during an audit should be sufficient enough to base his opinion. Describe clearly four factors to be considered when obtaining enough evidence on an account balance. (8 marks)
- c) Audits are of different classifications. Describe the nature of each of the following audits.
- i. Management audit (2 marks)
 - ii. Procedural audit (2 marks)
 - iii. Balance sheet audit (2 marks)

QUESTION FOUR (20 MARKS)

- a) When financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework; the auditor will express an unmodified opinion. Describe the basic components/elements of unqualified report. (12 marks)
- b) Identify the three components of audit risk, and for each component describe two factors that can lead to increase audit risk. (8 marks)

QUESTION FIVE (20 MARKS)

- a) Auditor's perform audit procedures to obtain audit evidence to base their audit opinion. Describe in detail the three categories of audit procedures. (12 marks)
- b) The Companies Act and the ethical guidelines issued by ICPAK require auditors to be independent in carrying out their duties. Explain the importance of professional independence the auditor. (8 marks)