MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 303: PRINCIPLES OF AUDITING

Date: 9/8/2016 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS

Answer Question One and Any Other Two Questions

QUESTION ONE

a) Restmount Kenya Ltd. was formed on 1 October 2015 in order to export tea and coffee to European markets. The Directors are unsure as to their responsibilities and the nature of their relationship with the external auditors. The audit partner has asked you to visit the client and explain to the directors, the fundamental aspects of the accountability of the directors and their relationship with the auditor.

Required:

Explain to the directors of Restmount Kenya Ltd: -

i) The need for an audit. (6 marks)

ii) Procedures for the appointment of an auditor of a public company under the Companies Act. (5 marks)

iii) Directors' responsibilities in relation to the accounting function of the Company. (4 marks)

iv) Auditors' statutory responsibilities in relation to the audit of the company's financial statements. (5 marks)

b) In auditing the financial statements of companies which use computerized accounting systems, the auditors may find that this traditional (audit) trail is often obscured. Various techniques can be used in order to give the auditors greater assurance when the audit trail is lost.

Required

i) Explain why there is a possible loss of audit trail when companies utilize computerized accounting systems and why auditing through the computer assists the auditors in overcoming this loss of audit trail. (5 marks)

ii) Outline how audit software can be used by the auditors in order to assist them in carrying out their analytical procedures. (5 marks)

QUESTION TWO

Towards the end of an audit, it is common for the external auditor to seek a letter of representation (written representations) from the management of the client company.

Required:

i) Explain why auditors seek letters of representation. (5 marks)

ii) List the matters commonly included in the letter of representation. (6 marks)

iii) Explain why it is important to discuss the content of the letter of representation at an early stage during the audit. (3 marks)

iv) Explain why management is sometimes unwilling to sign a letter of representation and describe the actions an external auditor can take if management refuses to sign a letter of representation. (6 marks)

QUESTION THREE

a) What is meant by the term 'fraud'? Give four examples of fraudulent activities. (6 marks)

b) What do you consider to be the auditor's responsibilities in the course of the normal annual audit in relation to the detection of fraud? (6 marks)

c) Explain the way in which the auditor should approach and perform his work in order to meet these responsibilities. (8 marks)

QUESTION FOUR

a) Describe the following types of Audits:

i. Statutory Audits (2 marks)

ii. Internal Audits (2 marks)

iii. Private Audits (2 marks)

iv. Management Audits (2 marks)

v. Continuous audit (2 marks)

c) What are the similarities and differences between internal and external auditing? (10 marks)

QUESTION FIVE

a) What is an audit? (2 marks)

b) Explain the importance of audit to a limited liability company. (10 marks)

c) In addition to shareholders, many different parties are interested in the audited accounts of a company. Name FOUR such parties and state the significance of audited accounts to each one of them. (8 marks)