# MACHAKOS UNIVERSITY

**University Examinations for 2018/2019 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BANKING, ACCOUNTING & FINANCE**

**………… YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR**

**BACHELOR OF COMMERCE**

**BAC 401: AUDITING PRACTICE AND INVESTGATIONS**

**DATE:** **TIME:**

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**INSTRUCTIONS:** Attempt Question One and any other Two Questions

**QUESTION ONE (30 MARKS) (COMPULSORY)**

a) Describe four benefits of environmental auditing to entity (6 marks)

b) Describe auditors responsibility in relation to prevention and detection of errors and frauds. (4 marks)

c) An auditor is required to determine the sample size of the population in which to apply audit procedures. Explain the meaning of the following terms, describing how each influences the size of the sample you would choose to represent a population.

  i. tolerable error (2 marks)

  ii. Auditors assessment of inherent risk (2 marks)

  iii. expected error (2 marks)

  iv. Required confidence level (2 marks)

d) Using appropriate examples in each case, explain the importance of the following computer files as used in computer accounting systems.

  i. transaction files

  ii. master files (4 marks)

e) Identify and explain the audit procedures you would use to verify a sh five million loan obtained in the previous year prior to your auditing period. (10 marks)

**QUESTION TWO (20 MARKS)**

a) Describe three differences between auditing and investigation (3 marks)

b) Explain the procedures you would follow to gather evidence on suspected misappropriation of cash due to collusion among two employees. (12 marks)

c) Audit committees play a pivotal role in corporate governance of an entity. Describe five responsibilities of the committees. (5 marks)

**QUESTION THREE (20 MARKS)**

a) Your organization has planned to upgrade from manual accounting system to computerized accounting system. As the internal auditor, describe the general internal controls you would recommend to be put in place, stating the importance of each. (14 marks)

b) Briefly explain how you would use computer audit programs (software) to audit wages and salaries of your client, (6 marks)

**QUESTION FOUR (20 MARKS)**

Your audit firm has been accepted by Nellah limited to audit their financial statements for the year ended 30$^{th}$ March,2014.The statements have disclosed the value of machines and debtors as sh. Four million and sh 800 000 respectively.As a member of the audit team, you have been assigned the duty of verifying the two assets.

a) Your client firm owns several machines which are ever moved to areas of operation. Describe the audit procedures you would carry out to ensure existence of the machines and proper disclosure, bearing in mind that you may not see the machines during the audit period. (10 marks)

b) you also intend to obtain evidence on the value of debtors .Giving a reason in each case, describe the nature of audit procedures you would perform justifying your selection of debtors to be circularized, (10 marks)

**QUESTION FIVE (20 MARKS)**

Your firm is auditing Folaa insurance company's accounts for the year ended 30$^{th}$ June, 2010.Explain clearly how you would examine the following items.

a) Insurance premiums for the financial year (5 marks)

b) claims received and paid during the year (5 marks

c) Investments by the insurance company (10 marks)