



MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

**THIRD YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF
COMMERCE**

BAC 303: PRINCIPLES OF AUDITING 1

DATE: 4/8/2017

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the meaning of the following terms as used in auditing:
- i) "true and fair view"
 - ii) material mis-statement
 - iii) interim audit (6 marks)
- b) Internal control system is of prime importance in an organization. However, no system is 100% efficient. Using an example in each case, briefly explain four inherent limitations of internal controls. (6 marks)
- c) 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. (6 marks)
- d) Auditors are supposed to plan for their audit engagement. Use four factors to describe the importance of planning before conducting an audit. (6 marks)

- e) Modern businesses are owned by shareholders and managed by directors. Audits have always been a remedy for the agency problem. Give four reasons to describe the importance of an audit to a company. (6 marks)

QUESTION TWO (20 MARKS)

- a) When carrying out his audit, the auditor is supposed to carry out the process through specified stages. Clearly describe the sequential stages an audit. (12 marks)
- b) Wela 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 perform before accepting appointment. (8 marks)

QUESTION THREE (20 MARKS)

- a) In his process of reviewing internal controls, the auditor is expected to ascertain the controls and accounting system, record and evaluate the internal controls. Explain the meaning and describe the nature of the review components. (12 marks)
- b) The auditor is supposed to maintain detailed working papers throughout his audit. Describe four factors that explain the importance of such working papers to the auditor. (8 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 component/elements of unqualified reports. (12 marks)
- b) Identify the three components of audit risk, and for each component describe two factors that can lead to increased audit risk. (8 marks)

QUESTION FIVE (20 MARKS)

- a) ISA 500(revised) requires the auditor to use management assertions to form a basis for the assessment of risks of material misstatements and the design and perform further audit procedures. Identify the three categories of the assertions and explain the specific assertions under each category. (12 marks)
- b) The Companies Act and the ethical guidelines issued by ICPAK requires auditors to be independent in carrying out their duties. Explain the importance of professional independence the auditor. (8 marks)