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 BACHELOR OF COMMERCE

BAC 303: PRINCIPLES OF AUDITING

Date: 7/12/2015 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE

a) Discuss the importance of auditing on partnership business. (10 marks)

b) The auditor's operational standard states, "The auditor should obtain relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusions thereon".

Required:

i) What factors would influence the judgment of the auditor with regard to sufficiency of audit evidence? (10 marks)

ii) What factors would influence the auditor to accept third party certificates as audit evidence? (7 marks)

iii) State the important factors that must be considered when assessing the reliability of audit evidence. (3 marks)

QUESTION TWO

You are the auditor of Bei Nafuu Supermarkets Limited across the country. The management has informed you that they intend to set up an internal audit function.

REQUIRED:

a) Identify and explain the function to be performed by the internal audit department in Bei Nafuu Supermarkets Limited. (8 marks)

b) List four factors that you would consider before placing reliance on the work of the auditors of Bei Nafuu Supermarkets Limited. (4 marks)

c) Explain four controls that you would expect to find in Bei Nafuu Supermarkets Limited. (4 marks)

d) Explain how the quality of the internal audit department of Bei Nafuu Supermarkets Limited can be assessed. (4 marks)

QUESTION THREE

a) State the basic element of the scope paragraph of an audit report. (4 marks)

b) Explain how auditors distinguish their responsibility from those of the directors in respect of financial statements. (4 marks)

c) Explain the meaning of each of the following terms in relation to audit reports:

   i. Circumstances of uncertainty. (4 marks)

   ii. Circumstances of disagreement. (4 marks)

d) Distinguish between the "except for" and the "subject to" audit opinions. (4 marks)

QUESTION FOUR

a) Outline the professional guidelines that would assist the external auditor in avoiding being unduly dependent on a single client. (5 marks)

b) Identify and briefly explain the statutory and ethical matters you would consider before accepting appointment as an auditor of a company. (10 marks)

c) In the context of the Companies Act (Cap. 486), state the rights of an auditor. (5 marks)

QUESTION FIVE

a) Give a definition of an "internal control system". (4 marks)

b) Describe the internal control procedures you would recommend to the owner of a medium size wholesale business to facilitate prevention and detection of errors and frauds. (16 marks)