



The Co-operative University of Kenya

END OF SEMESTER EXAMINATIONS DECEMBER-2019

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS (YR IV SEM II)**

UNIT CODE: HCOB 2302

UNIT TITLE: CO-OPERATIVE AUDITING I

DATE: 9th DECEMBER 2019

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

Kahawa Bora Farmers' Co-operative Society, was started 10 years ago to serve the interests of its members who are coffee farmers. This society intends to appoint a new auditor for the subsequent financial year. Following submissions from a number of firms of accountants, it has been recommended to the members that your audit firm be appointed to provide the following services:

- The statutory audit.
- An independent review of the interim accounts, which will be circulated to the members together with your firm's independent review report. The independent review will be less detailed than a full audit, being restricted to making enquiries of management, applying analytical procedures to the financial information and assessing whether the accounting policies and presentation have been consistently applied.

Your firm has not previously acted as auditor of this Co-operative Society, but it has had experience auditing other societies in other industries.

Required:

- (a) Highlight **SIX** factors that you would consider in planning for this audit (6 Marks)
- (b) Explain **THREE** risks that you would need to assess as you conduct an audit of this entity to establish whether the financial statements are free from material misstatements (6 Marks)
- (c) Highlight the issues you would include in your engagement letter addressed to the management of this entity (8 Marks)

- (d) Design **FIVE** tests of controls on the entity's tangible assets (10 Marks)

QUESTION TWO

- (a) Delphic Co-operative Society is a dealer in furniture (such as chairs, tables and cupboards). Delphic sells to over 600 customers ranging from large retail chain stores to smaller owner controlled businesses. The receivables balances therefore range from Sh.125,000 to Sh.5,000.

Required:

Explain the audit procedures that should be carried out on the receivables balance at Delphic, explaining the reason for each procedure. (12 marks)

- (b) Briefly discuss **FOUR** Factors that influence sufficiency of audit evidence. (4 Marks)
- (c) Highlight **FOUR** Criteria that an auditor can use to assess the reliability of audit evidence (4 Marks)

QUESTION THREE

- (a) You are part of an audit team that is expected to conduct an interim audit of the transactions of Kalaba Co-operative Society, which markets fruits on behalf of its members who are fruit farmers. The audit manager has delegated the task of verifying the sales orders in this entity.

Required

- i) Determine **FIVE** control objectives in regard to the sales orders of Kalaba Co-operative Society (5 Marks)
- ii) Establish **FIVE** control procedures you would look out for in regard to sales orders of Kalaba Co-operative Society (5 Marks)
- iii) Establish **FIVE** test of controls that you would conduct when verifying the sales orders of Kalaba Co-operative Society (5 Marks)
- (b) Highlight **FIVE** importance of internal control system to the client (5 Marks)

QUESTION FOUR

- (a) Discuss **FIVE** ethical principles that an auditor should and be seen to uphold (10 Marks)
- (b) Highlight **FOUR** importance of working papers to an auditor. (5 Marks)
- (c) Define the **expectation gap** and highlight **THREE** measures that can be adopted to minimize it . (6 Marks)

QUESTION FIVE

- (a) Describe how the audit report is affected when there are concerns about the ability of an entity to continue as a going concern. (5 marks)
- (b) For each of the following scenarios, describe the **type of audit opinion** you would express giving reasons for such.
- i) You have audited the financial statements of Nuru Gizani Co-operative Society and you have found that without any reservations they indeed show a true and fair view
 - ii) You have audited the financial statements of Nuru Gizani Co-operative Society and you have found that a cash accounting system is non-existent and it is impossible to verify the credibility of any cash transaction because not much evidence can be gathered. This is an issue that you consider to be fundamental or pervasive
 - iii) You have audited the financial statements of Nuru Gizani Co-operative Society and you have disagreed with management on the disclosure requirement of a legal suit against the society. Because the lawyers of the society say that it is possible that the entity might lose the case, you feel that they should have at least disclosed it within the financial statements. This is an issue that you deem to be material but the management has refused to do so.
 - iv) You have audited the financial statements of Nuru Gizani Co-operative Society and found that they indeed show a true and fair view. However there is an issue on a large amount of loan that this entity had borrowed and due to the fact that they are currently having liquidity problems, they have been defaulting on the payment of the interest and principal amount. This has significantly increased the risk of the

entity going bankrupt because the lenders have threatened to sue. This is an issue that you feel is going to affect the going concern of the entity but the management have not disclosed it within the financial statements.

- v) You have audited the financial statements of Nuru Gizani Co-operative Society and found that during a stock take, the employees of the entity denied you access to the store to observe the process. Therefore it was impossible for you to gather sufficient evidence on some particular stock items that had a significantly high value. This is an issue that you deem to be material. (15 Marks)