



# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATION AUGUST -2018**

**EXAMINATION FOR DIPLOMA IN BUSINESS ADMINISTRATION**  
**(YR I SEM II)**

**UNIT CODE: DMBA 1104**

**UNIT TITLE: PRINCIPLES OF AUDITING**

**DATE: 23<sup>RD</sup> AUGUST 2018**

**TIME: 2:00 PM – 4:00 PM**

## **INSTRUCTIONS:**

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

### **QUESTION ONE**

- a) State five ways in which internal control systems (ICS) is different from internal check (IC) (5 Marks)
- b) Rest -Mount Kenya ltd was formed on 1<sup>st</sup> October 2017 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 Rest -Mount Kenya ltd (9 Marks)
- The need for the audit
  - Procedures for the appointment of the auditor of the public company under the Companies Act.
  - Directors' responsibilities in relation to the accounting function of the company.
  - Auditors statutory responsibilities in relation to the audit of the company
- c) Explain three professional ethics that an auditor is entitled to adhere to (3 Marks)
- d) Giving examples, explain three categories of financial statement assertions other than completeness used by auditors in the audit of financial statements. (3 Marks)
- e) Onyango has been appointed to act as an auditor of XYZ ltd for the current financial period. State and explain the different types of audit opinions that he would be require to give after completing his audit work (3 Marks)
- f) State four principle objectives of sound internal control system (4 Marks)
- g) State 3 reasons why an auditor should monitor the progress of audit work (3 Marks)

### **QUESTION TWO**

- a) i. What meant by "letter of engagement" (2 Marks)
- Your firm has recently been appointed auditors of express garage and spares ltd, a long established automotive repairs and spares co. quoted on the stock market.  
Explain why a letter of engagement is desirable for this appointment (6 Marks)
- b) In addition to shareholders, many different parties are interested in the audited accounts of a company. Name four such parties and statethe significance of audited accounts to each one of them (4 Marks)

c) You have a request from XYZ ltd to accept appointment as their auditors for the financial year ending 31<sup>st</sup> Dec. 2017. Required;

i. Explain the preliminary procedures you would carry out upon appointment (4 Marks)

ii. State why it's important for an incoming auditor to hold consultations with the outgoing auditor (4 Marks)

### **QUESTION THREE**

a) Write brief notes on:

i. Final or completed audit (3 Marks)

ii. Interim audit (3 Marks)

iii. Continuous audit (3 Marks)

iv. Balance sheet audit (3 Marks)

b) State four contents of Current Audit File (4 Marks)

c) Give two differences between internal audit evidence and external audit evidence (4 Marks)

### **QUESTION FOUR**

a) Explain how the establishment of an internal audit function in a large manufacturing company helps the perpetration of frauds and other malpractices (6 Marks)

b) How may the external auditor reduce the audit time by relying on the work of clients' internal audit functions (4 Marks)

c) Name four types of audit opinions which an auditor may express in his report and indicating the circumstances under which each will be issued (4 Marks)

d) Explain three techniques of collecting audit evidence (4 Marks)

### **QUESTION FIVE**

a) The auditors operational standards require an auditor to adequately record his work;

i. Explain the main purposes which audit working papers service (4 Marks)

ii. State four main characteristics of good working papers (4 Marks)

b) The auditor operational standards states that.....'the auditor should adequately plan, control and record his work'

i. Suggest why audit planning is considered so important (4 Marks)

ii. Suggest practical problems which could be encountered in implementing audit planning and how you would endeavor to minimize these problems (8 Marks)