

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** [**info@must.ac.ke**](mailto:info@must.ac.ke)

**University Examinations 2015/2016**

FOURTH YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3427 – ADVANCED AUDITING**

**DATE: AUGUST, 2016 TIME: HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

In a recent audit report issued by the Auditor –General of the republic on audit and scrutiny of public accounts, it was revealed that 67 billion worth of public funds taken on account of imprests were not surrendered and could not be accounted by the officer in state departments/ ministries and other public agencies.

On county governments of Kenya, it was found that there were many supplies paid for goods not delivered and received in stores and wheelbarrows whose market price ranged between shs. 3,000 to shs. 10,000 were being procured at the range of shs. 75,000 to shs. 115,000.

**Required:**

1. Discuss the audit environment in which the Auditor- General is carrying out the audit function in the government. (5 Marks)
2. Elucidate some of the reasons as to why shs. 67 billion on imprests, could not be accounted by public officials. (5 Marks)
3. Highlight some of the internal control weakness in the county government that would make governors and county executives to procure materials at looking prices over and above the market prices. (5 Marks)
4. Good corporate governance and oversight are critical fundamentals that make stewards perform their duties almost congruently to the expectations of shareholders/tax payers and stakeholders.
5. Define the term good corporate governance (2 Marks)
6. Define the term oversight. (2 Marks)
7. The role of good corporate governance and oversight is almost not functional in the county governments. To what extent do you agree with this statement and observations? (5 Marks)
8. Explain the measures that the national government, other stakeholders and tax payers can take to foster and promote effective oversight and good corporate governance in county governments, organizations. (6 Marks)

**QUESTION TWO (20 MARKS)**

You have been appointed to be the external auditor of KIKALI LTD. KIKALI Ltd is a micro finance bank operating in upper Eastern of Embu, Meru, Tharaka Nithi and Isiolo counties of Kenya. The audit is on accounts and financial statements for the year to 30th June 2016.

KIKALI LTD

Statement of comprehensive income for the year to 30.6.2016

Shs.

Interest on loans 600

Other income 50

Total comprehensive income 650

Less operating expenses

Interest on deposits 150

Staff costs 80

Other operational costs 50

Foreign exchange losses 50

Provision for bad loans 100

**430**

Operating income before tax 220

Taxation 60

Profit after tax 160

General reserves 50

Prepared dividends 150

Retained earnings 20

KIKALI LTD

Statement of financial position as at 30th June 2016

Shs.M Shs.M

**Non current assets**

PPE 300

Long term investments 100

Investment property 450

Current software assets 50

Interest receivable 100

Debtors (loans) 1,400

Bank 500

Cash 50

Prepayments 10

Short term investment 600

3,500

**Equities and liabilities**

Ordinary share capital 700

General reserves 50

Retained earnings 20

**Non current liabilities**

Long term loan – IFC 500

**CURRENT LIABILITIES**

Customers deposits 2,000

Tax payable 60

Dividends payable 90

Interest payable 50

Other accruals and trade creditors 90

Total capital + liabilities 3,560

1. Explain as the external auditor of KIKALI LTD the audit considerations you take into account before expression of the audit opinion on the company accounts and financial statements.

(5 Marks)

1. Explain the matters you would consider when assessing the company’s assets(5 Marks)
2. Examine and elucidate, the going concern status of KIKALI Ltd. (5 Marks)
3. Explain the audit procedures and techniques you would use to audit the accounts of sales for KIKALI Ltd. (5 Marks)

**QUESTION THREE (20 MARKS)**

Explain the following terms as commonly used in audit evidence gathering and testing.

1. Substantive testing (4 Marks)
2. compliance testing (4 Marks)
3. Analytical review (4 Marks)
4. Statistical sampling (5 Marks)
5. Judgemental sampling (3 Marks)

**QUESTION FOUR (20 MARKS)**

Mucui has just completed his BCOM (MUST) degree in accounting and has been hired as a teller trainee with OKOA Bank Meru Branch. On the day of reporting for the new assignments, he found several customers complaining to the manager how the Bank’s ATM (Automated Teller Machine) has erroneously deducted money from their accounts and for three days thereafter no refund to their accounts have been made, with customers wondering if the bank has schemed to “eat “ their money.

**Required:**

a) Highlight the controls that Okoa Bank should have taken into account before deciding to use ATM machines in its operations. (6 Marks)

b) Explain the likely effects of the above ATM customer delays and malfunctions to Okoa Bank and its operations. ( 4 Marks)

c) Compare and contrast the benefits between manual and computerized accounting systems and to what extent should the banks use either. (6 Marks)

d) Highlight key inherent risks associated with manual system of accounting and business operations. (4 Marks)

**QUESTION FIVE (20 MARKS)**

You have been appointed as the internal auditor of Twendelee Hotel which owns and runs a number of Hotels in Meru, Nanyuki,Embu, Nkubu, Maua, Isiolo and Chuka towns. Recently the management has lowered the price of rooms per night by 30% in order to increase the demand and usage of rooms. However, during some of your night visits in Meru, Chuka and Maua hotels you have noted that customers pay for rooms and the night cashiers/clerks do not issue receipts. Day books/journals on rooms are so poorly recorded, scanty records of rooms per night. Many of the hotel branches do not prepare monthly accounts with rooms’ accounts segment showing declining revenues even after lowering the room charges and the reality being that many customers are using rooms at night.

**Requirement:**

1. Explain some of the financial and accounting problems facing the Twendelee group of hotel. ( 5 Marks)
2. Highlight the kind of work or the measures you would take as an internal auditor to correct the problems noted in (a) above. (5 Marks)
3. Indicate some of the challenges you are likely to face in the internal audit function of Twendelee hotels in the midst of prevailing circumstances. (5 Marks)
4. Discuss the benefits that Twendelee group of Hotels would gain with a good functioning internal auditing department. (5 Marks)