

**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**

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE.

**BFC 3228: PRINCIPLES OF AUDITING**

**DATE: AUGUST 2016 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. As a new appointed auditor explain the tenure of an auditor (5 marks)
2. Explain how an auditor can be appointed as stipulated in Companies Act Cap 486 (10 marks)
3. Explain who is disqualified to be appointed as an auditor as stipulated in Companies Act Cap 486. (5 marks)
4. Explain the rights of the auditor to access books as stipulated in Companies Act Cap 486. (10 marks)

**QUESTION TWO (20 MARKS)**

The director of Kijana Mdogo Limited, a company just formed a few months ago, have consulted you in writing with a view of engaging you as their first auditors. In their letter you notice the following statements. “Your duties and rights will be determined by the board of the company strictly. In addition the directors retains exclusively the right to dismiss you without necessarily explaining the reasons for their actions”.

**Required:**

1. Describe your duties as an auditor of Kijan Mdogo Limited. (5 marks)
2. What should be your relationship as an auditor and the directors of the company? (5 marks)
3. Explain your rights as an auditor as stipulated in Companies Act Cap 486. (5 marks)
4. What is your position regarding the exclusive rights of the directors to dismiss you. (5 marks)

**QUESTION THREE (20 MARKS)**

You are an auditor with You and Me partners for which you audit the accounts of Mimi na Wewe limited. After the results of the financial year just ended you are invited for a meeting with the CEO of Mimi na Wewe Limited. During the meeting which cordial, friendly and informative, the CEo suggested that the external auditor may well be necessary for the outsider user of financial statements in so far as he adds credibility to those statements but as far as management was concerned external audit was just a nuisance. He felt that internal audit was much more valuable and believed that the firm should be doing much more to co-ordinate your work with that of the internal auditor. **Required:**

1. Explain what CEO meant by the statement that external auditor needs to add credibility to financial statements. (4 marks)
2. Show why the management may have come to the conclusion that internal audit is more useful to them than the external audit. (4 marks)
3. Explain to the CEO in what respect you believe the external audit may also be of considerable value to the management. Give examples. (4 marks)
4. State the reasons why the external auditor may use the wok of the internal auditor (4 marks)
5. State the extent to which you believe the internal auditor can benefit from co-operating with the external auditor. (4 marks)

**QUESTION FOUR (20 MARKS)**

You have been appointed the auditor of a furniture manufacturing company in your neighbourhood. During your audit you collect different varieties of evidence in order to form your opinion on the truth and fairness of the financial statements. A selected list of some of the varieties of evidence is given under

1. Witnessing of procedures
2. Testimony from independent third parties
3. Satisfactory internal control
4. Subsequent events
5. Agreement with expectations

You are required to

1. State under each variety of evidence four circumstances during the audit of the company where you would apply that variety. (10 marks)
2. Briefly indicate why you would require that piece of evidence in each circumstance. (10 marks)

**QUESTION FIVE (20 MARKS)**

Your cousin Jane Odhiambo is employed in a small branch of a bank where she is involved only with customer’s personal accounts. You have received a letter from your cousin in which she informs that she is about to be transferred to another branch where she will be involved with customer who are limited companies. Your cousin has requested you to write something about audits and audit reports.

You are required to explain in the letter

1. The nature and purpose of the audit of limited company. (10 marks)
2. The meaning of the audit report and its content. (10 marks)