



MURANG'A UNIVERSITY COLLEGE

(A Constituent University of Jomo Kenyatta University of Agriculture and Technology)
SCHOOL OF BUSINESS AND ECONOMICS; COMMERCE DEPARTMENT
BCOM YEAR 2 SEM. 1/ BPSM YEAR 1 SEM 1 SUPPLEMENTARY EXAMINATION
HPS 2106: AUDITING PRINCIPLES AND PRACTICE
HBC 2207: PRINCIPLES OF AUDITING
MAIN CAMPUS

ACADEMIC YEAR: 2014/2015

DATE: 7TH AUGUST 2015

TIME: 2 HOURS

INSTRUCTIONS TO THE CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions

QUESTION ONE

- a) Explain any **FOUR** types of audits clearly indicating the criteria used in distinguishing amongst them. (8 marks)
- b) Explain the difference between Error and fraud in an auditing context. (4 marks)
- c) Give examples of internal audit work that may be used by the external auditor. (6 marks)
- d) Explain the matters you would consider and the work you would perform to enable you assess the extent to which you would rely on the work of the internal audit department of your client. (12 marks)

QUESTION TWO

- a) List down in point form an internal control system for the raw materials purchasing system of a large manufacturing firm. (8 marks)
- b) What is a management letter and what is its function? (8 marks)
- c) Explain the following terms as used in auditing:
 - i. Accounting System,
 - ii. Control environment. (4 marks)

QUESTION THREE

- a) Kasuku Company Limited was established in January 2013, to sell and distribute household products. The directors are unaware as to their responsibilities and the nature of their relationship with the external auditors. Explain to the directors of Kasuku Company:
- i. Why there is need for an external audit. (12 marks)
 - ii. The qualifications required for one to be appointed as an auditor. (8 marks)

QUESTION FOUR

- a. What is audit evidence? What does sufficient appropriate audit evidence refer to?(10 marks)
- b. What are management assertions and what is its importance to the auditor? (10 marks)

QUESTION FIVE

- a. Explain factors an auditor should consider when formulating an audit plan. (12 marks)
- a) What are substantive tests? Name and briefly explain any FOUR of the assertions that auditors seek to confirm in conducting substantive tests. (8 Marks)

The auditor should consider the audit approach he wishes to adopt, including the extent to which he may rely on internal controls and any aspects of the audits, which need particular attention. Matters to consider by the auditor in developing overall audit plan include;

- Understanding the accounting and internal control systems
- the auditor should seek to understand the accounting policies adopted by the entity and changes in these policies. The auditor's cumulative knowledge of the accounting and internal control systems and the relative emphasis expected to be placed on tests of control and substantive procedures.
- Reviewing matters raised in the previous year's audit, which may have continuing relevance in the current year. This is done by reviewing previous year's working papers. The auditor will be able to identify areas noted as having weak controls or specific accounting problems. Attention should be paid to such areas in the audit plan.
- Assessing the effects of any changes in legislation or accounting practice affecting the financial statements of the company. The audit plan should include a review of these changes and whether the client has complied.
- The auditor should consult with management and staff of the organization about current trading circumstances and any significant changes in the business carried on and the management of the enterprise. E.g. changes in management might weaken the internal control system.
- Identify any significant changes in the clients accounting procedures such as installation of a new computer information system. Changes to a computerized system could result in weak controls.
- Conditions requiring special attention such as the existence of related parties.
- Consider any current or impending financial difficulties, which could face the company. E.g. shortage of raw materials or failure to raise working capital.
- The auditor should check the nature and timing of reports and other communications with the client so that the audit plan accommodates such timings e.g. he should consider the dates of the annual general meeting, stock taking, dates when management reports are available.
- Set materiality levels for audit purposes and in particular identify areas with material transactions, which call for more audit work.
- The assessment of internal audit department and level of reliance to be place on its work.
- The auditor should also determine the number of audit staff required, experience and special skills required and the timing of the audit visits.

