

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR 2 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2207: PRINCIPLES OF AUDITING**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS: Answer Question One (Compulsory) and Any Other Two Questions**

**QUESTION ONE (30 MARKS)**

1. The manager of Nala and Jay limited company started the business of production of furniture five years ago. The management of the company invited the consultant firm to assess the performance of the company before the external auditors come to audit the books of accounts.

According to the consultant firm the company has problems in the areas of current assets. The manager was advised to have full information about analytical procedures used by auditors at risk assessment, testing and review stages of audit.

Required;

Preliminary analytical procedures are often performed on accounting ratios. Explain the possible reasons for the following changes found at the risk assessment stage of the audit;

1. An increase in the current ratio
2. A decrease in the gross profit margin
3. An increase in the inventory holding period
4. An increase in dividend cover
5. An increase in capital gearing (leverage) (10marks)
6. The concept of materiality is fundamental to the work of auditors. Matters that are immaterial are not reported in financial statements.

Required

1. Explain the concept of materiality
2. Describe how materiality affects the audit work performed by auditors.
3. Give an example of qualitative materiality (15marks)
4. i. Explain what it means by auditing around the computer and auditing through the computer (3marks)

ii. What is a qualified audit report? (1mark)

iii. Explain the role of professional bodies in the regulation of auditors. (2marks)

**QUESTION TWO (20 Marks)**

ISA 505 External confirmations deals with a number of different types of external confirmation. External confirmation is a useful tool and method of obtaining audit evidence in relation to accounts receivable

1. In relation to external confirmation of accounts receivable
2. Explain the difference between a positive and negative confirmation (3marks)
3. Explain the two different types of positive confirmation and the advantages and disadvantages of each. (3marks)
4. List the reconciling items highlighted by external confirmation of accounts receivable (8marks)
5. Describe the principal risks associated with assertions relating to receivables. (6marks)

**QUESTION THREE (20 Marks)**

Reports produced by internal auditors are different from audit reports produced by external auditors. The reports are different with respect to the users. They differ substantially in both form and content

Internal audit report often comprise the following

1. A cover page
2. Executive summary
3. The main report contents
4. Appendices

Required;

1. List and briefly describe the general categories of information that you would expect to find in an internal audit report under each of the four headings above. (10marks)
2. List the contents of most external audit report. (10marks)

**QUESTION FOUR (20 Marks)**

A letter of engagement is vital to all organizations that require audit exercise to be executed on them

Required:

1. What is the letter of engagement? (3marks)
2. Can the letter of engagement be altered? If so under what circumstance ISA 210 (7marks)
3. Give the relevance of engagement letter and explain the involved details. (10marks)