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**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR II 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 IN SECTION TWO**

**QUESTION ONE (COMPULSORY)**

(a)(i) Explain the meaning of the term “audit” [2 marks]

(ii) Explain the objectives of an audit according to the companies Act. [5 marks]

(iii) Identify the responsibilities of company’s directors in relation to the company’s

accounting system. [10 marks]

(iv) List and explain the advantages to a company of having its accounts audited. [3 marks]

(b) Audit planning process allows the audit senior to acquire adequate knowledge about the

entity. This process ensures an effective control of audit work.

**Required:**

1. Explain the auditors planning process when planning for an audit of a new client. [6 marks]
2. How does audit planning assist in conduct of an audit? [4 marks]

**QUESTION TWO**

1. Explain the purpose of an engagement letter. [10 marks]
2. Explain the stages audit sampling [10 marks]

QUESTION THREE

1. Computer security is of vital importance not only to the account in an industry but also to the accountant in practice who may be advising his client as to suitable security controls or who may be auditing a computer system. Security is the means by which losses are controlled and therefore involves the identification of risks and the institution of measures to either prevent such risk entirely or to reduce their impact.

**Required:**

(b)(i) State areas of risk which may arise in relation to a computer system. [5 marks]

(ii) Describe the different forms of control which should be instituted to safeguard

against computer security risk. [5 marks]

(c) Describe the principles or factors which the auditor should consider when placing reliance

on audit evidence provided by specialist [10 marks]

**QUESTION FOUR**

1. For anybody to qualify as an auditor in Kenya, he must meet some qualifications. List down and explain those qualifications. [10 marks]
2. Describe the various limitations of an internal control system. [10 marks]