

**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FOURTH YEAR FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE:BBM 402**

**COURSE TITLE: AUDITING AND ASSURANCE SERVICES**

**DATE: 9th May 2016 Time: 8.30am – 10.30am**

**INSTRUCTIONS**

Answer Question **ONE** and any other **THREE** questions.

***This paper consists of three printed pages. Please turn over.***

**Part A. Compulsory Question (25 marks)**

**QUESTION ONE**

It has often been said that the auditors’ report is the formal result of all his efforts. This being the case, it is very important that the reader well understands the meaning of the Audit Report, particularly where the auditor wishes to qualify his opinion on the financial statements.

**Required:**

1. Under statutory provision, what are the main contents of the auditors’ report? **(10 marks)**
2. Explain how the international standards on auditing attempt to ensure that the report of the auditors is clearly understood. **(10 marks )**
3. Describe clearly the circumstances in which an adverse opinion and a disclaimer of opinion would be appropriate and give two examples, one each, to illustrate your answer. (A full audit opinion is not required). **(5 marks)**

**PART B Answer Any Other THREE Questions. (15 Marks Each)**

**QUESTION TWO**

(a) What is the purpose of a letter of representation? **(5 marks)**

(b) State and explain the action auditors should take if the management refuses to provide a letter of representation. **(4 marks)**

(c ) State the specific representations you, as an auditor, would wish to obtains from the management in respect of :

1. Assets. **(3 marks)**
2. Liabilities.  **(3 marks)**

**QUESTION THREE**

Auditors may be liable to shareholders and other parties who may have relied on the financial statements upon which the auditors have expressed an opinion. This is because the auditors are generally taken as owing a “duty of care” those parties and they could be liable in the tort of negligence if they failed that duty.

**Required**

1. With reference to the external audit assignment, explain the meaning if the term “duty of care” **(5 marks)**
2. Explain the auditors’ general responsibility. With regard to the prevention and detection of fraud and errors. **(5marks)**
3. State and briefly explain five possible measures that auditing firms should take in order to avoid legal actions for negligence against them. **(5 marks)**

**QUESTION FOUR**

With regards to Outsourcing of Internal Audit function decision, explain the following;

1. Factors to consider before deciding on outsourcing **(5 marks)**
2. Benefits of Outsourcing **(5 marks)**
3. Disadvantages of outsourcing **(5 marks)**

**QUESTION FIVE**

1. An auditor should form an opinion on the adequacy of the accounting treatment of an inherent uncertainty disclosed in the financial statements of a company.
   1. What is meant by the term “inherent uncertainty”? **(2 marks)**
   2. Explain the treatment of inherent uncertainties in the auditor’s report.

**(6 marks)**

1. Summarize the principal contents of a statement of directors’ responsibilities to be included in financial statements. **(3 marks)**
2. Explain the steps an auditor should take if he concludes that the client has made a departure from an accounting standard in the preparation of the financial statements.

**(4 marks)**