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**University Examinations 2015/2016**

FOURTHYEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC3427: ADVANCED AUDITING**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Explain the following terms as used in audit investigations;
2. Management audit
3. Forensic audit
4. There is evidence that the public interest would be served by the inclusion of full information about risk facing companies in audited financial statements. Doubts about the going – concern presumption must be detected and adequately disclosed in financial statements and auditor’s reports. You are required to:
5. Explain what you understand by the term “gong concern concept” and its effect on the preparation of financial statement. (4 Marks)
6. List five non-financial indicators which might cast doubt on the going concern status of a company. (5 Marks)
7. Explain four director’s duties in respect of going concern. (8 Marks)
8. Describe the difficulties the auditor may encounter when measuring and reporting on environmental and social performance (9 Marks)

**QUESTION TWO (20 MARKS)**

1. Audit sampling may not be appropriate in certain circumstances. Discuss. (10 Marks)
2. Audit sampling is a technique for drawing conclusions about the characteristics of a population by testing a sample drawn there from. Internal and external auditors use it for both tests of controls, and substantive testing.

**Required:**

Describe the following:

1. Judgement sampling and statistical sampling
2. Representative sample
3. Tolerable error
4. Extrapolation of errors
5. Two different methods of selecting a representative sample (10 Marks)

**QUESTION THREE (20 MARKS)**

Explain the meaning of the following:

1. Audit evidence (4 Marks)
2. Post-balance sheet events (4 Marks)
3. Contingent liabilities (4 Marks)
4. Compliance tests (4 Marks)
5. Walk through tests (4 Marks)

**QUESTION FOUR (20 MARKS)**

Computer security is of vital importance not only to the accountants in the industry but also to the accountant in practice who may be advising the client as of suitable security control or who may be auditing a computer system.

Security is a means by which losses are controlled and therefore, involves the identification of risks and the institution of measures to either prevent such risks entirely or to reduce their impact.

1. State four areas of risk which may arise in relation to a computer system and in each case explain one factor which could lead to the system being exposed to such risk. (12 Marks)
2. Describe the different forms of control which should be instituted to safeguard against computer security risks. (8 Marks)

**QUESTION FIVE (20 MARKS)**

1. Recently Universities in Kenya have been found to misappropriate funds and this has created the need for audit committee. Discuss the responsibilities of audit committees. (10 Marks)
2. List and explain some of the ways in which the directors of a company might be seen to be able to influence the auditors and thus threaten the auditor’s independence. (10 Marks)