



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 303: PRINCIPLES OF AUDITING

DATE: 25/3/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the meaning of the following terms as used in financial audit.
- i. Internal controls
 - ii. substantive procedures
 - iii. Interim audit
 - iv. tests of controls (8 marks)
- b) Auditor always plan for their audit engagement. Use four factors to describe the importance of planning before conducting an audit. (8 marks)
- c) Internal controls system is of prime importance in an organization. However no system is fully efficient. Using an example in each case, briefly explain four inherent limitations of internal control. (6 marks)
- d) The quantity of information obtained by auditors during an audit should be sufficient enough to base his opinion. Describe clearly four factors to be considered when obtaining enough evidence on an account balance. (8 marks)

QUESTION TWO (20 MARKS)

- a) When carrying out his audit, the auditor is supposed to carry out the process through specified stages. Clearly describe the sequential stages an audit. (12 marks)
- b) BT company is a newly incorporated public company. Through its directors, the company has approached you for an audit engagement. Describe the legal and ethical procedures you would perform before accepting appointment. (8 marks)

QUESTION THREE (20 MARKS)

- a) In his process of reviewing internal controls, the auditor is expected to ascertain the controls and accounting system, record and evaluate the internal controls. Explain the meaning and describe the nature of the review components. (12 marks)
- b) The auditor is supposed to maintain detailed working papers throughout his audit. Describe four factors that explain the importance of such working papers to the auditor. (8 marks)

QUESTION FOUR (20 MARKS)

- a) When financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework; the auditor will express an unmodified opinion. Describe the basic component/elements of unqualified reports (12 marks)
- b) Identify the three components of audit risk, and for each component describe two factors that can lead to increased audit risk. (8 marks)

QUESTION FIVE (20 MARKS)

- a) ISA 500(revised) requires the auditor to use management assertions to form a basis for the assessment of risks of material misstatements and the design and perform further audit procedures. Identify the three categories of the assertions and explain the specific assertions under each category. (12 marks)
- b) The Companies Act and the ethical guidelines issued by ICPAK requires auditors to be independent in carrying out their duties. Explain the importance of professional independence the auditor. (8 marks)