



MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS, HOSPITALITY AND TOURISM MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 303: PRINCIPLES OF AUDITING

DATE: 25/8/2022

TIME: 8.30-10.30 AM

INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO questions**.

QUESTION ONE (COMPULSORY)

- a) Explain the meaning of the following terms as used in a financial audit.
- Statutory audit
 - material misstatement
 - Auditor's liabilities
 - Substantive procedures
 - tests of controls (10 marks)
- b) Auditor always plan for their audit engagement. Using four factors, describe the importance of planning before conducting an audit. (6 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) Tembe company is a newly incorporated public company. Through its directors, the company has approached you for an audit engagement. Describe the client acceptance procedures, stating clearly the specific contents of the contract. (10 marks)
- b) Substantive analytical procedures are done to confirm relationships. State and explain the three categories of analytical procedures, identifying the methods used under each category. (10 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) Explain 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 and explain the assertions about classes of transactions and events for the period (12 marks)
- b) The Companies Act and the ethical guidelines issued by ICPAK requires auditors to be independent when carrying out their duties. Identify four threats to such independence stating how each can be safeguarded. (8 marks)