



# MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM  
MANAGEMENT**

**DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE**

**Third year .....SEMESTER EXAMINATION FOR**

**BACHELOR OF ECONOMICS AND FINANCE**

**BACHELOR OF EDUCATION**

**BACHELOR OF COMMERCE**

**BAC 303: PRINCIPLES OF AUDITING**

**DATE:**

**TIME:**

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## **INSTRUCTIONS**

**Answers question ONE and any other TWO questions.**

### **QUESTION ONE (COMPULSORY) (30 marks)**

- a) Explain the meaning of the following terms as used in a financial audit.
- i) “True and fair view”
  - ii) Material misstatement
  - iii) Management assertions
  - iv) Risk assessment procedures (8 marks)
- b) Describe the nature and purpose of each of the following audits.
- i) Statutory audit (2 marks)
  - ii) Management audit (2 marks)
  - ii) Standard audit (2 marks)
  - (iii) Interim audit (2 marks)
- c) ISA 300 requires the auditor to plan an audit of financial statements. State the purpose of
- i) Establishing the overall audit strategy (2 marks)
  - ii) Developing an audit plan. (2 marks)

- d) Professional accountants have accepted the responsibility to act in public interest. The code of ethics for professional accountants has established five fundamental principles. State and describe the importance of each principle. (10 marks)

### **QUESTION TWO (20 MARKS)**

- a) It's the responsibility of the management to design and maintain internal controls. Describe five benefits of effective internal controls to an organization (10 marks)
- b) Kera company, through its directors, has approached you for an audit engagement. Describe the legal and ethical procedures you would undertake before accepting appointment. (10 marks)

### **QUESTION THREE (20 MARKS)**

- a) Every company appoints a statutory auditor, at each general meeting to hold office until the conclusion of the next annual general meeting. Describe clearly four duties of the auditor when writing an audit report. (4 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) The quantity of information obtained by auditors during an audit should be sufficient enough to base his opinion. Explain clearly four factors to be considered when obtaining enough evidence on an account balance. (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 opinion. Describe the basic components/elements of a qualified report. (12 marks)
- b) Identify the three components of audit risk, and for each component describe two factors that can lead to increase audit risk. (8 marks)

### **QUESTION FIVE (20 MARKS)**

- a) Auditor's perform audit procedures to obtain audit evidence to base their audit opinion. Describe in detail the three categories of audit procedures. (12 marks)
- b) The Companies Act and the ethical guidelines issued by ICPAK require auditors to be independent in carrying out their duties. Explain the importance of professional independence the auditor. (8 marks)