KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 303: PRINCIPLES OF AUDITING

DATE: Monday, 5th February, 2018 **TIME: 11.00 a.m. - 1.00 p.m.**

INSTRUCTIONS:

Answer ALL questions

Marks allocated are shown at the end of each question

QUESTION ONE

Growfast plc was formed on 1st august, 2016 in order to manufacture tablets. The directors are unsure as to their responsibilities and the nature of their relationship with the external auditors including why an engagement letter is required. The audit partner has asked you to visit the client and explain to the directors the more fundamental aspects of the accountability of the company and their relationship with the auditors.

Required:

Explain to the directors of Growfast plc:-

(a) Any four Auditors' rights under the Companies Act of 2015 (8 marks)

(b) The responsibilities of the directors in relation to the accounting function of the Company (6 marks)

(c) Why it is important that an auditor should send a letter of engagement to the client prior to undertaking the audit (6 marks)

*INVOLVEMENT IN ANY **EXAMINATION IRREGULARITY** SHALL LEAD TO **DISCONTINUATION***

QUESTION TWO

(a) Explain the meaning of the following phrases

(i) Qualified audit report (4 marks)

(ii) Fundamental uncertainty (4 marks)

(b) state the matters the Companies Act requires to be contained in an audit report (5 marks)

(c) What types of audit opinion would normally follow from a limitation in the scope of the audit (2 marks)

QUESTION THREE

(a) Explain what you understand by the following techniques of audit testing. You should describe briefly the nature and reliability of each technique and give an example of each.

(i) Inspection (3 marks)

(ii) Observation (3 marks)

(iii) Enquiry (3 marks)

(b) What basic legal responsibility has an auditor to ascertain whether or not an aspect of the affairs of a client is being conducted in a lawful manner? (6 marks)

QUESTION FOUR

(a) Write brief notes on the following:

(i) Continuous audit (2 marks)

(ii) Final audit (2 marks)

(iii) Interim audit (2 marks)

(b) State four objectives of an internal control system (4 marks)

(c) Internal and External auditors may review internal control systems. Explain the reason for their reviewers, distinguishing between them (10 marks)