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UNIVERSITY EXAMINATIONS 2023/2024

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF COMMERCE

AND

SECOND YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF BUSINESS ADMINISTRATION

BFC 3228/ BFC 3278: PRINCIPLES OF AUDITING/AUDITING AND ASSURANCE

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Westmount Kenya ltd was formed on October 2007 in order to export tea and coffee to European markets. The directors are unsure as to their responsibilities and the nature of their relationship with the external auditor. The audit partners have asked you to visit the clients and explain to the director, the fundamental aspects of the accountability of the directors and their relationship with the auditor

Required:

Explain to the directors of Westmount Kenya ltd

- i. The need for an audit (5 Marks)



MUST is ISO 9001:2015 and



ISO/IEC 27001:2013 CERTIFIED

- ii. Procedures for the appointment of an auditor of a public company under the company Act. (5 Marks)
- iii. The director's responsibilities in relation to the accounting function of the company (5 Marks)
- iv. Auditors statutory responsibilities in relation to the audit of the company's financial statement. (5 Marks)
- b) Discuss the importance of internal control systems in auditing. (6 Marks)
- c) Describe two documents that auditors use when conducting the audit. (4 Marks)

QUESTION TWO (20 MARKS)

- a) Describe the matters to consider within your firm and the other procedures that must be undertaken before accepting an appointment as an auditor to a new client (6 Marks)
- b) Explain why it would be inappropriate to commence the audit before consideration of the matters and the procedures referred to in (a) above have been completed (4 Marks)
- c) Explain the purpose of an engagement letter and list its contents (5 Marks)
- d) International standards of auditing 300, (planning and audit of financial statement states that an auditor must plan the audit. Explain why it is important to plan an audit. (5 Marks)

QUESTION THREE (20 MARKS)

The auditor's operational standard requires that the auditor obtain relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusion there from Required:

- a) What is audit evidence? (5 Marks)
- b) Explain the meaning of the following terms
 - c) Relevant audit evidence (2 Marks)
 - d) Reliable audit evidence (2 Marks)
- c) Explain whether the following types of audit evidence meets the standards of relevancy, reliability and sufficiency as required by the auditor's operational standards regarding



- i. Written confirmation of a trade debtor circularized at the year end (3 Marks)
- ii. Work-in progress stocks identified during the annual physical stock count. (4 Marks)
- iii. Solicitor's letter confirming pending legal action. (4 Marks)

QUESTION FOUR (20 MARKS)

- a) ISA 505, external confirmations, states that "the auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level."

Required:

- i. List four examples of external confirmation (4 Marks)
- ii. For each of the examples in (i) above, explain one audit assertion that the external confirmation supports and one audit assertion that the external confirmation does not support (6 Marks)
- iii. Write short notes on the following in relation to audit evidence and procedures giving examples of each
 - a) Compliance test (5 Marks)
 - b) Substantive test (5 Marks)

QUESTION FIVE (20 MARKS)

The company Act (Cap 486) sets out the duties of the auditor for a company in respect of his report and other matters

- a) State four situations under the Act requires auditor's to qualify their report. (5 Marks)
- b) State two circumstances in which the auditor may qualify their report owing to inherent uncertainty. (5 Marks)
- c) State four types of circumstances in which an auditor may qualify their report as a result of disagreement with the directors (5 Marks)
- d) Draft a qualified report in a standard format with at least four qualifications (5 Marks)

