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**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER
MAIN EXAMINATION**

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE:BCA 322

COURSE TITLE: PRINCIPLES OF AUDITING

DATE:

TIME:

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 HOURS

Section A

Question One

Restmount Kenya Ltd. was formed on 1ST October, 2006 in order to export tea and coffee to the European markets. The Directors are unsure as to their responsibilities and the nature of their relationship with the external auditors. The audit partner has asked you to visit the client and explain to the directors, the fundamental aspects of the accountability of the directors and their relationship with the auditor.

required:

Explain to the directors of Restmount Kenya Ltd.

- a. The need for an audit (2 Marks)
- b. Procedures for the appointment of an auditor of a public company under the Companies act. (5Marks)
- c. Directors responsibilities in relation to the accounting function of the Company (4 marks)
- d. Auditors' statutory responsibilities in relation to the audit of the company's financial statements (5 marks)

II) Describe the procedures which should be followed by the directors of a company wishing to appoint a new auditor to replace the present auditor under the following circumstances:

The auditor has resigned and he does not wish to be re-appointed. (3 marks)

The auditor has disagreed with the directors because he has issued a qualified report on the accounts (4 marks)

Illustrate the rights of an outgoing auditor? (2 Marks)

Qualify the conditions that can warrant an auditor to be dismissed by management.(5 Marks)

SECTION B

QUESTION TWO

- a) Statistical sampling techniques are superior to non-statistical sampling techniques. With relevant examples support this statement.(10 Marks)
- b) Your firm, Ukweli PLC, is the newly appointed external auditor to Malezi Ltd Company that sells, maintains and leases office equipment and furniture to its customers and you have been asked to co-operate with the internal audit to keep total audit costs down. Malezi Ltd Company wants your company to rely on some of the work already performed by their internal audit. The internal auditors provide the following services to the company:
 - (i) A cyclical audit of the operation of internal controls in the company's major functions including operations, finance, and customer support and information services.
 - (ii) A review of the structure of internal controls in each major function every four years;

(iii) An annual review of the effectiveness of measures put in place by management to minimize major risks facing the company.

During the current year, the company has gone through a major internal restructuring in its information services function and the internal auditors have been closely involved in the preparation of plans for restructuring, and in the related post-implementation review.

Required:

(a) To what extent will your firm will seek to rely on the work of the internal auditors in each of the areas noted above. (5 marks)

(b) Describe the information your firm will seek from the internal auditors in order for you to determine the extent of your reliance. 5 marks

(c) Describe the circumstances in which it would not be possible to rely on the work of the internal auditors. (10 marks)

QUESTION FOUR

a) The scope and objectives of internal audit depends on the size and structure of the entity and the responsibility assigned to it by management. Evaluate the activities that must be included in the scope and objectives of internal audit during performing their duties. (8 marks)

.b) With relevant examples justify the actions that an auditor should take after discovering that a company's internal control system is weak.(10 marks)

QUESTION FIVE

a) Illustrate SIX financial statement assertions, other than completeness, used by auditors in the audit of financial statements. (10 marks)

b) The purpose of an external audit and its role are not well understood. You have been asked to write some material for inclusion in your firm's training materials dealing with these issues in the audit of large companies.

Draft ~~explanation~~ dealing with the purpose of an external audit and its role in the audit of large companies, for inclusion in your firm's training materials (10 marks) .