



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY  
SCHOOL OF BUSINESS AND ECONOMICS  
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF EDUCATION  
ARTS  
3<sup>RD</sup> YEAR 1<sup>ST</sup> SEMESTER 2013/2014 ACADEMIC YEAR  
KISII – SCHOOL BASED**

---

**COURSE CODE: ABA 305**

**COURSE TITLE: AUDITING 1**

**EXAM VENUE: LR 17**

**STREAM: (BEd arts)**

**DATE: 25/8/14**

**EXAM SESSION: 3.00 – 5.00 PM**

**TIME: 2 HOURS**

---

**Instructions:**

- 1. Answer Question 1(Compulsory) and any other two questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

### QUESTION ONE

Restmond Kenya Ltd. was formed on 1 October 2006 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 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 Restmond Kenya Ltd.

- a. The need for an audit (8 marks)
- b. Procedures for the appointment of an auditor of a public company under the Companies Act. (8 marks)
- c. Directors responsibilities in relation to the accounting function of the Company. (6marks)
- d. Auditors' statutory responsibilities in relation to the audit of the company's financial statements . (8 marks)

### QUESTION TWO

Your firm is the newly appointed external auditor to a large company that sells, maintains and leases office equipment and furniture to its customers and you have been asked to co-operate with internal audit to keep total audit costs down. The company wants the external auditors to rely on some of the work already performed by 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 (operations, finance, customer support and information services)
- (ii) A review of the structure of internal controls in each major function every four years;
- (iii) A n annual review of the effectiveness of measures put in place by management to minimize the 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) Explain the extent to which your firm will seek to rely on the work of the internal auditors in each of the areas noted above. (8 marks)
- (b) Describe the information your firm will seek from the internal auditors in order for you to determine the extent of your reliance. (6 marks)
- (c) Describe the circumstances in which it would *not* be possible to rely on the work of the internal auditors. (6 marks)

### QUESTION THREE

List and describe SIX financial statement assertions, other than completeness, used by auditors in the audit of financial statements. (20 marks)

#### **QUESTION FOUR**

Your firm has been approached by the directors of UB Bank Ltd. a newly formed commercial bank to undertake the audit for its first complete financial year ended 31 December 1996. Your manager has assigned you the responsibility for leading the team. You have had various discussions with the directors about the timetable and the respective responsibilities of management and the auditor. You have drafted a letter of engagement and have sent it to the managing director for approval and acceptance but the management has not yet responded to your letter.

**Required:**

- a) Explain why a letter of engagement is sent before any new audit appointment is accepted. (10 marks)
- b) Set out the main contents of a letter of engagement. (10 marks)

#### **QUESTION FIVE**

a) ISA 230 Audit Documentation establishes standards and provides guidance regarding documentation in the context of the audit of financial statements.

Required; list the purposes of audit working papers.

(13 marks)

b) Explain why it is important to plan an audit.

(7 marks)