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University Examinations 2011/2012`

FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT

HPS 2105: PRINCIPLES OF AUDIT AND PRACTICE

DATE: APRIL 2012

TIME: 2 HOURS

INSTRUCTIONS: Answer *all* questions

QUESTION ONE (30 MARKS)

Muthondeki graduated five years ago from MUCST with a degree in supplies and purchasing. She has also completed CIPS and CPA. Recently she was employed at Deka monte Ltd as the purchasing officer in charge reporting to the chief executive officer of the company.

On reporting to take over the new duties and responsibilities, Muthondeki found the activities of the purchasing division to be as follows.

1. There was a huge file of unpaid invoices from suppliers
2. No registers for materials receipts, no vouchers to record issues, of goods neither vouchers for the same. No delivery records of goods
3. No registers to record flow of inventories, no bin cards, no serialization of local purchase and service orders books. Some LPL books had been lost
4. Store rooms were poorly kept and locking system was lacking
5. Majority of the workers in the purchasing division were cousins, niece and nephews of the former purchasing officer who had been retrenched from the company due to failure to perform due to lack of skills and even the workers lacked professional training in purchasing and store keeping.
6. The division was managed by the former purchasing officer on a personal trust basis between him and the company before the new chief executive officer took office.

- 1) There were no records of discounts received from suppliers, or goods returned back to suppliers in case of defects
- 2) On scrutiny of the available purchases transactions, Muthondeki found out that they were surrounded with a lot of secrecy, errors, frauds and serious alterations in addition to other short comings, as the division operated manually.

From the above case study of Dekamonte Company.

- a. Highlight the internal control weaknesses that existed in the company's purchasing division (10 Marks)
- b. Explain two accounting and financial risks against the shareholders funds in the company (4 Marks)
- c. What are the likely circumstances or factors that may have led to the present status of Dekamonte's purchasing division? (8 Marks)
- d. Highlight and explain light internal control mechanism procedures and measures that can be put in place in the Dekamonte purchasing division, so that the functions of the division can be executed in an orderly, disciplined open and effective manner (8 Marks)

QUESTION TWO (15 MARKS)

- a. Professional independence is critical concept fundamental to any professional career and duty.
 - i. highlight why it is important for auditors to be independent while carrying out audit duties (3 Marks)
 - ii. List and explain five main likely categories of threats to the auditors independence (5 Marks)
 - iii. Highlight the measures that organizations and auditors can put in place to safeguard their independence (4 Marks)
- b. Distinguish clearly, with explanation the differences between errors and frauds (3 Marks)

QUESTION THREE (15 MARKS)

- a. (i)define the term auditing? (1 Mark)

- (ii) Highlight how auditing is different from accounting (2 Marks)
- (ii) What are the duties of a n external auditor of a public limited liability company (5 Marks)
- (iv) How different are the duties of company directors, from those of the auditors (4 Marks)
- b. Explain the rights of the auditors in the context of a limited liability company or a state owned enterprise (3 Marks)

QUESTION FOUR (10 MARKS)

Critically, distinguish between the following:

- a. View audit versus procedural audit (2 Marks)
- b. Risk based audit versus continuous audit (3 Marks)
- c. Internal audit versus external audit (3 Marks)
- d. Interim audit versus balance sheet audit (2 Marks)