

**W1-2-60-1-6**

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

# **UNIVERSITY EXAMINATIONS 2014/2015**

SECOND YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBC 2207 : PRINCIPLES OF AUDITING**

**DATE: APRIL 2015 TIME: 2 HOURS**

**INSTRUCTIONS:**

**ANSWER QUESTION ONE [COMPULSORY] AND ANY OTHER QUESTION IN SECTION B**

**====================================================================**

**SECTION A: COMPULSORY**

**QUESTION ONE**

1. You are the auditor of Bei nafuu supermarkets Ltd with several baranches across the country. The management has informed you that they intend to set up an internal audit function.

Required:

1. Identify and explain the function to be performed by the internal audit department in Bei Nafuu supermarkets Ltd. [8 marks]
2. List four factors that you would consider before placin g reliance on the work of the auditors of Bei Nafuu supermarkets ltd. [4 marks]
3. Explain the various controls that you would expect t find in Bei Nafuu supermarket Ltd. [4 marks]
4. In the context of ISA 240 (The Auditors responsibility to consider fraud and error in an audit of financial statements)
5. Define
6. Fraud [3 marks]
7. Error [3 marks]
8. Outline the respective responsibilities of an entity’s management and the external audit with respect to the prevention and detection of fraud and error. [8 marks]

SECTION B: ANSWER ANY TWO QUESTIONS

**QUESTION TWO**

1. The auditors should prepare working paper which are sufficiently and detailed to provide an overall understanding of the audit.

Required:

1. Explain the benefits that an auditor would obtain from working papers that satisfy the above requirement. [10 marks]
2. List five items of information you would expect to be contained in a permanent audit time and explain why each of these items of information should be readily available. [10 marks]

**QUESTION THREE**

The Pondamalu Ltd manufactures and retails doors and frames. The company

recently dismissed their external auditors. The directors have approached your

firm of accountants to act as their auditors and the directors have proposed a fee to

shs 1 000 000 plus a bonus of 1% of profits after tax.

Required:

1. Describe the steps you would take before advising the partners of your firm on whether to accept the appointment as auditors or not. [8 marks]
2. State with reasons whether professional auditors should accept the method of remuneration as proposed by the directors of the client company. [6 marks]
3. Explain the implications of fixing the audit fee by negotiation between the directors and the external auditors on the independence of the auditor. [6 marks]

**QUESTION FOUR**

Audit planning process allows the audit service to acquire adequate knowledge

about the entity . This process ensures an effective control of audit work.

Required

1. Explain the auditor’s planning process when printing for an audit of a new client [8 marks]
2. How does audit planning assist in the conduct of an audit [5 marks]
3. Explain the following controlling procedures in a will planned audit
4. Direction and supervision of work [2 marks]
5. Review and coordinating of work [2 marks]
6. Quality controls. [3 marks]