



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH
INFORMATION TECHNOLOGY**

MAIN CAMPUS

ABA 317: AUDITING II

Date: 16th June, 2017

Time: 8.30 - 11.30am

INSTRUCTIONS:

- Answer Question ONE and any other THREE.
- Question one carries 25 marks and the rest 15 marks each



QUESTION ONE (COMPULSORY)

- a) You are a senior member of the audit team at Grace Milling Ltd., a company whose business is milling wheat for local consumption. The annual turnover for the year ended 30 September 2012 amounted to Sh. 1.5 million and most of its sales were on credit. The audit team leader has assigned you the audit of the provision for bad and doubtful debts which has been set at Sh. 4.75 million; out of which Sh. 3.25 million relates to the provision against specific bad and doubtful debts and the balance of Sh. 1.5 million is a general provision determined as a percentage of overdue debtors with a higher percentage being applied against the longest overdue accounts.

Required:

- Outline the audit procedure you would apply in verifying the general provision for bad and doubtful debts. (10 marks)
- b) Explain the factors that are to be considered during audit planning (10 marks)
- c) Briefly explain giving two examples, the quality of audit evidence generated by third parties (5 marks)

QUESTION TWO

- a) Explain auditor's responsibilities with regard to audit report (8 marks)
- b) Discuss the following aspects of an auditor's report
- i. Emphasis of matter (3 marks)
 - ii. Adverse opinion (4 marks)

QUESTION THREE

- a) Explain the impact of controls on audit of small businesses (8 marks)
- b) Explain the characteristics of small enterprises that affects audit (7 marks)

QUESTION FOUR

- a) Describe how developments in information technology are currently affecting auditing and their possible future impact. (8 marks)
- b) Explain the reasons for audit rotation in organizations (7 marks)

QUESTION 5

- a) Describe the issues that an auditor examines during vouching of documents during audit assignment (7 marks)
- b) Using relevant examples, Discuss the rationale for no mandatory rotation of audit firms for banks in Kenya (8 marks)

QUESTION 6

- a) The question of the auditor's responsibility for the detection and prevention of fraud is highly contentious. The past few years have seen an increase in both the incidence and scale of corporate fraud, while the question of third party liability has also not been conclusively settled by case law.

Required:

Explain the procedure you would follow as an auditor in a fraud investigation.

(7 marks)

- b) The ban on advertising of accountancy services in Kenya is not sustainable. Discuss.

(8 marks)