

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** [**info@must.ac.ke**](mailto:info@must.ac.ke)

**University Examinations 2014/2015**

FOURTH YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE.

**BFC 3427: ADVANCED AUDITING**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Explain the following terms as used in Auditing and illustrate with examples.
2. International standards on auditing and accounting
3. Corporate governance
4. Stakeholders and shareholders
5. Transparency, responsibility accountability
6. External audits and internal audits (10 marks)
7. In light and prudent financial management and reporting in an enterprise, explain why it is important for corporate business to:-
8. Comply with international standards on auditing and accounting.
9. Adhere to generally and globally acceptable good corporate governance practices.
10. Make and publish accounts and financial statements that meet the needs of shareholders and stakeholders.
11. Conduct their transactions dealings and affairs in a transparent and responsible manner.
12. Engage external and internal auditors in their financial and management accounting, and reporting systems. (10 marks)
13. Explain the benefits of computers and information technology in the financial management and reporting of enterprises transactions and results. (5 marks)
14. Critically, evaluate some of the limitations of computers and information technology in auditing of corporate enterprises. (5 marks)

**QUESTION TWO (20 MARKS)**

The concept of going concern is of critical significance in auditing and accountancy. ISA 240 requires auditors in principle to evaluate the going concern of an enterprise, given a set of financial statements accounts and information contained there on and provide assurance to the shareholders, not only detection of errors and frauds.

1. Explain the term going concern in the context for corporate business (3 marks)
2. Discuss six factors/matters that may put doubt into the going concern status if entity. (6 marks)
3. Explain the audit tests and procedures that an auditor should undertake in order to obtain sufficient evidence as to the going concern status of a company. (6 marks)
4. Highlight with examples some of the post balance sheet events that may have significant negative impact on the going concern status of a bank (5 marks)

**QUESTION THREE (20 MARKS)**

Complete reliable and relevant financial information material in substance and communicated through financial statements is a prerequisite for growth of financial markets enterprises and economic development.

Required:

1. In the context of the above statement:-

Explain

1. The role of audit committees in corporate governance of the enterprises (6 marks)
2. The importance of the auditors independence (4 marks)
3. The need for disclosure, appendices, notes to accounts and published financial statements. (4 marks)
4. Elucidate clearly and with adequate examples why auditors needs to carry out thorough and adequate verifications of non-current and current assets before approving accounts for distribution to shareholders and other market players/users (6 marks)

**QUESTION FOUR (20 MARKS)**

1. Explain the term oversight (2 marks)
2. Highlight briefly the importance of oversight (3 marks)
3. Illustrate how internal auditors can perform oversight in a bank (3 marks)
4. Explain how each of the following group of stakeholders can perform oversight in university institutional environment with regard to misuse, destruction of institutional properties and assets. (12 marks)
5. Students
6. Lecturer/Teacher
7. Managers and Registrars
8. The council
9. The government
10. Communities and general publics

**QUESTION FIVE (20 MARKS)**

1. In the past Accountancy profession has been criticized for its role in monitoring and reporting potential corporate failure. Radical reforms have been called for in the way the accountancy profession is regulated. There has been calls for legislation in the following areas:-

* Auditing standards where auditing standards should be ser and enforced independent of the accounting profession
* Fraud, auditing firms should have a duty to detect and report fraud
* Non-audit services, auditors should not provide their clients with non-audit services
* Duration of auditor’s appointment where appointment auditors should be for a maximum period of seven years, non-renewable or once.

**Required:**

1. In the context of the current audit environment in Kenya should there be legislation as has been called for? Discuss with clear illustrations. (10 marks)
2. Explain with clear highlights why the accountancy profession has been criticized as indicated above, in the past. (5 marks)
3. Describe some of the inherent limitations facing auditors in undertaking their work, especially in corporate enterprises with dominant characters at the top of management helm of these enterprises (5 marks)