



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2017/2018**

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

**CITY CAMPUS**

**ABA 317: AUDITING II**

Date: 6<sup>th</sup> May 2018

Time 5.30 - 7.30pm

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**INSTRUCTIONS:**

- Answer Question one and any other three questions



## QUESTION ONE

Restmount 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 Rest Mount Kenya Ltd.

- a) The need for an audit (5 marks)
- b) Procedures for the appointment of an auditor of a public company under the Companies Act 2015. (5 marks)
- c) Directors' responsibilities in relation to the accounting function of the Company. (7 marks)
- d) Auditors' statutory responsibilities in relation to the audit of the company's financial statements. (8 marks)

## QUESTION TWO

You are an audit senior responsible for understanding the entity and its environment and assessing the risk of material misstatements for the audit of Rock for the year ending 31 December 2004.

Rock is a company listed on a stock exchange. Rock is engaged in the wholesale import, manufacture and distribution of basic cosmetics and toiletries for sale to a wide range of stores, under a variety of different brand names. You have worked on the audit of this client for several years as an audit junior.

### Required:

- (a) Describe the information you will seek, and procedures you will perform in order to understand the entity and its environment and assess risk for the audit of Rock for the year ending 31 December 2004. (7 marks)
- (b) You are now nearing the completion of the audit of Rock for the year ending 31 December 2004. Draft financial statements have been produced. You have been given the responsibility of performing a review of the audit files before they are passed to the audit manager and the audit partner for their review. You have been asked to concentrate on the proper completion of the audit working papers. Some of the audit working papers have been produced electronically but all of them have been printed out for you.

**Required;**

Describe the features of those working papers that show that they have been properly completed. (8 marks)

**QUESTION THREE**

ISA 400 (Risk Assessments and Internal Control) deals with internal control objectives and internal controls. ISA 500 (Audit Evidence) deals with audit objectives and audit procedures. A proper understanding of internal controls is essential to auditors in order that they understand the business and are able to effectively plan and execute tests of controls and an appropriate level of substantive procedures.

You are the auditor of a small manufacturing company, Dinko, that pays its staff in cash and by bank transfer and maintains its payroll on a small stand-alone computer.

**Required:**

- (a) For the payroll department at Dinko, describe the:
- i. Internal control objectives that should be in place. (3 marks)
  - ii. Internal control environment and internal control procedures that should be in place to achieve the internal control objectives. (4 marks)
- (b) For the payroll charges and payroll balances (including cash) in the financial statements of Dinko:
- i. Describe the external auditor audit objectives. (4 marks)
  - ii. List the tests of control and substantive procedures that will be applied in order to achieve the audit objectives identified in (b) (i) above. (4 marks)

**QUESTION FOUR**

The responsibilities of internal and external auditors in relation to the risk of fraud and error differ. Explain the responsibilities of external auditors in respect of the risk of fraud and error in an audit of financial statements. (15 marks)

**QUESTION FIVE**

There are a number of different methods of obtaining audit evidence. Methods include:

- i. Analytical procedures.
- ii. Audit sampling
- iii. Tests of controls.



- iv. Detailed testing of transactions and balances.
- v. Computer assisted audit techniques (CAATs)

These methods overlap and may be used for different purposes during an audit of financial statements.

**Required:**

- a) Explain the advantages and disadvantages of each of the five methods of evidence gathering listed above. (10 marks)
- b) Describe the relationship between the five methods of evidence gathering described above. (5 marks)

**QUESTION SIX**

Computer security is of vital importance not only to the accountant in industry but also to the accountant in practice who may be advising his client as to suitable security controls or who may be auditing a computer system. Security is the means by which losses are controlled and therefore involves the identification of risks and the institution of measures to either prevent such risks entirely or to reduce their impact.

- a) State four areas of risk which may arise in relation to a computer system and in each case explain one factor which could lead to the system being exposed to such risk. (8 marks)
- b) Describe the different forms of control which should be instituted to safeguard against computer security risks. (7 marks)