



UNIVERSITY OF EMBU

2017/2018 ACADEMIC YEAR

SECOND SEMESTER EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF
COMMERCE**

DAC 403: AUDITING AND ASSURANCE SERVICES

DATE: APRIL 6, 2018

TIME: 2:00 PM – 4:00 PM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

- a) Describe five types of errors to be detected by an auditor. (5 marks)
- b) Define the term “fraud” and identify four examples of fraudulent activities in an organization. (5 marks)
- c) Distinguish between the following types of audit;
- i) Private and statutory audit (2 marks)
 - ii) Final and interim audit (2 marks)
- d) Briefly explain any five rights of an auditor under the Companies Act Cap. 486. (5 marks)
- e) “As the auditor carries out the steps in the audit programme, collecting evidence to support an opinion on the financial statements, s/he must have some means of recording evidence for future study and considerations. Audit working papers are specific means used to record this evidence”. In the light of this statement;
- i) Identify any three main purposes served by the working papers. (3 marks)

- ii) Explain the circumstances under which an auditor may issue a qualified opinion. (4 marks)
- iii) Explain any four objectives of audit planning. (4 marks)
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QUESTION TWO (20 MARKS)

- a) Explain the purpose of auditor engagement letter. (5 marks)
- b) Explain the principal contents of an auditor engagement letter. (5 marks)
- c) Discuss the objectives of debtors' circularization. (5 marks)
- d) Describe clearly the circumstances in which an adverse opinion and a disclaimer of opinion would be appropriate. (5 marks)

QUESTION THREE (20 MARKS)

- a) Explain the concept of internal control system. (4 marks)
- b) Identify and explain six main types of internal control. (6 marks)
- c) Your firm acts as auditors to Jama Ltd. which operates a car repair service. Recently the company has expanded its operations by the purchase of a petrol station. The directors and the only shareholders of Jama Ltd are James and Margaret Mkarimu. Margaret does not take active part in the running of the business. James intends to open the petrol station for 15 hours per day, employing staff in three shifts of five hours. He has provided you with the following information:
1. The petrol station is not self-service, so the staff will have to fill tanks as well as take payment for petrol.
 2. Four members of staff will be employed on the busy shifts.
 3. Petrol is delivered by the Oil Company three times a week and the amount delivered can be checked against a meter on the delivery wagon as well as by dipping the station tanks.
 4. The sale of petrol through each pump is monitored by a pump meter.
 5. Sundry items such as oil, confectionery and small motor accessories will also be sold.
 6. James asked you for advice on how he should establish a system of internal control over petrol sales.

Required:

- i) Draft a letter to James, which outlines a suitable system of internal control over petrol stock and sales. (6 marks)
- ii) Explain why an auditor may find it difficult to rely on the internal control in Jama Ltd. (4 marks)

QUESTION FOUR (20 MARKS)

- a) Define audit evidence. (1 mark)
- b) Describe four techniques of gathering audit evidence. (4 marks)
- c) Explain the three qualities of good audit evidence. (6 marks)
- d) Describe the factors which the auditor should consider when determining the size of audit sample. (6 marks)
- e) Explain three circumstances where the auditor is unlikely to use audit sampling techniques. (3 marks)

QUESTION FIVE (20 MARKS)

- a) Highlight any four key points one must consider when designing an audit plan. (4 marks)
- b) Discuss the differences between internal and external audit. (4 marks)
- c) Describe the concept of value for money auditing. (6 marks)
- d) Define forensic auditing and describe its application to fraud investigations. (6 marks)

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