

KIRINYAGA UNIVERSITY  
BCOM YEAR 4.1  
HBA 2402 ADVANCED AUDITING  
CAT 2

**Question one**

Internal control is defined in the International Standards on Auditing (ISA 400) as:

"The whole system of controls, financial and otherwise, established by the management in order to:

- i. Carry on the business of the enterprise in an orderly and efficient manner
- ii. Ensure adherence to management policies
- iii. Safeguard the assets, and
- iv. Secure as far as possible the competence and accuracy of the records".

**Required**

In respect of management objectives (i) to (iv) above, explain their meaning and the relevance of each to the auditor giving an opinion on financial statements. (4 marks)

**Question two**

- a) Explain five matters should be taken into account in formulating the audit plan? (5 Marks)
- b) Explain three limitations of audit evidence (3 marks)

**Question three**

The modern approach to 'risk-based auditing' is a most welcome development.

**Required**

- (a) Explain what you understand by risk-based auditing. (1 mark)
- (b) List **four** factors which could indicate potential high risk areas on a particular audit. You should give reasons in your answer. (4 marks)
- (c) Explain why there has been an increased use of a risk-based auditing approach in recent years and what advantages arise for the auditor from the adopting of such an approach. (3 marks)