



UNIVERSITY OF EMBU

2021/2022 ACADEMIC YEAR

FIRST SEMESTER EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 403: AUDITING AND ASSURANCE SERVICES

DATE: DECEMBER 1, 2021

TIME: 8:30 AM – 10:30 AM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

- a) Briefly explain the meaning of the term “audit” (2 marks)
- b) Describe clearly the circumstances in which an adverse opinion and a disclaimer of opinion would be appropriate and give two examples, one each, to illustrate your answer. (A full audit opinion is not required). (4 Marks)
- c) Distinguish between procedural audit and management audit. (4 Marks)
- d) Specialists or experts are occasionally required by external auditors mainly in connection with the valuation assets and the determination of liabilities. Discuss the necessity for reliance on independent specialist. (5 Marks)
- e) Briefly discuss the content of the auditor’s report to the shareholders as governed by the Companies Act (for a limited liability company). (4 Marks)
- f) Distinguish between environmental auditing and forensic auditing. (4 Marks)
- g) Cash in hand and cash at bank are commonly referred to as liquid assets. Because of this liquidity, these assets represent the most vulnerable of all the assets of an entity. You have recently been employed by Korir and Associates (Certified Public – Accountants) as an audit



assistant. During your first audit assignment at Viwanda Ltd you have been allocated the audit of cash in hand and cash at bank.

Required

- i) Explain the audit procedures you would undertake in order to determine whether or not there has been any misappropriation of cash. (5 marks)
- ii) Identify any two controls over cash you would expect to be instituted by a business entity in order to minimize cases of embezzlement of cash. (2 marks)

QUESTION TWO (20 MARKS)

You are the auditor of Bei Nafuu Supermarkets Limited across the country. The management has informed you that they intend to set up an internal audit function.

Required:

- a) Explain the function to be performed by the internal audit department in Bei Nafuu Supermarkets Limited. (8 marks)
- b) List four factors that you would consider before placing reliance on the work of the auditors of Bei Nafuu Supermarkets Limited. (4 marks)
- c) Explain four controls that you would expect to find in Bei Nafuu Supermarkets Limited. (4 marks)
- d) Discuss two ways in which the quality of the internal audit department of Bei Nafuu Supermarkets Limited can be assessed. (4 marks)

QUESTION THREE (20 MARKS)

- a) Explain the purpose of a letter of representation. (2 marks)
- b) Briefly explain the action auditors should take if the management refuses to provide a letter of representation. (2 marks)
- c) Elucidate specific representations you, as an auditor, would wish to obtain from the management in respect of :
 - i) Assets. (4 marks)
 - ii) Liabilities. (4 marks)
- d) Explain the meaning of each of the following terms in relation to audit reports:
 - i) Circumstances of uncertainty. (2 marks)
 - ii) Circumstances of disagreement. (2 marks)
- b) Distinguish between the “except for” and the “subject to” audit opinions. (4 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the procedures you would follow to verify the following items:
- i) Petty cash balance. (3 marks)
 - ii) Revaluation reserve. (3 marks)
 - iii) Copyrights. (3 marks)
- b) Discuss any three reasons why planning the audit in advance is considered to be so important. (3 Marks)
- c) Suggest practical problems which could be encountered in the implementation of audit planning and how you would endeavour to minimise them. (8 Marks)

QUESTION FIVE (20 MARKS)

- a) You are required to explain how an audit firm may use third party confirmations to provide evidence in relation to six different balance sheet items. (6 marks)
- b) The National Metal Works Limited manufactures and retails door and window frames. The company recently dismissed their external auditors. The directors have approached your firm of accountants to act as their auditors and the directors have proposed a fee of KES. 1, 000, 000 plus a bonus of 1% of profits after tax.

Required:

- i) Describe the steps you would take before advising the partners of your firm whether to accept the appointment as auditors or not. (4 marks)
- ii) As a professional auditor, evaluate the method of remuneration proposed by the directors of the client company. (4 marks)
- iii) Explain the implications of fixing the audit fee by negotiation between the directors and the external auditors on the independence of the auditor. (6 marks)

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