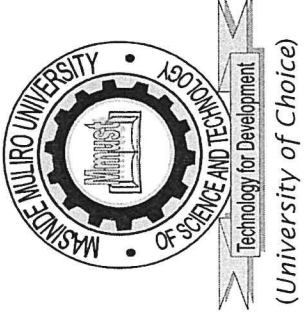


140



**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE/
BACHELOR OF SCIENCE (ACCOUNTING)**

COURSE CODE: BCA 450

COURSE TITLE: AUDITING AND INVESTIGATION

DATE: Friday 29TH APRIL 2022 TIME: 12-2PM

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer FOUR (3) questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating



This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION 1

1 a) Auditing and investigations are two distinct activities. Explain using any four appropriated features (4mks)

b) Investigations may be constituted along the following parameters;

- i. Tax compliance **(4mks)**
 - ii. Fraud and errors **(4mks)**
 - iii. Mergers and acquisition **(4mks)**
 - iv. Statement of the financial position events **(4mks)**
- Describe the nature of activities an auditor is expected to come up in his investigations report along the four parameters

c) Discuss the influence of the following IAS on the respective matched activities in auditing;

IAS 1 on Presentation of financial statement **(2mks)**

IAS 315 on Risk assessment **(2mks)**

IAS 530 on Audit sampling **(2mks)**

IAS 401 on Computerized information system **(2mks)**

IAS 500 revised on Audit evidence **(2mks)**

QUESTION 2

a) You have been recently appointed as the auditor of Dania Ltd. The outgoing auditor provided no reason as to why you should not accept appointment but nevertheless, commented that auditing the client “was a challenge”.

During your planning for the new audit, you discovered that:

- The company has been experiencing a low return on assets over the last few years.
- The company has failed to meet its contractual obligations and consequently has lost several contracts to competitors.
- The production manager’s package includes a substantial profit related bonus.
- Staffs are unhappy and there is a huge turnover of staff.
- The managing director, substantial shareholder is about to retire and the exit package includes a profit related bonus.
- The managing director is keen on the accounts showing a dramatic improvement in the current year due to cost savings.

Required;

- i. Describe how you would analyse inherent risks in planning for the audit of Dania Ltd. **(5mks)**
- ii. On analyzing draft accounts, you discover that profits have improved significantly due to a decline in provisions for doubtful debts **(5mks)**
- iii. You also discover that non-current assets have been valued at prices that cannot be supported. In spite of this, the managing director is unwilling to engage in an independent valuer. Demonstrate, through a draft audit opinion, how you would reflect the above findings **(10mks)**

QUESTION 3

- i. Define the term “audit committee” **(2mks)**

- ii. Describe the salient features of a qualified and independent audit committee **(8mks)**
- iii. One of the requirements of corporate governance is to set up a qualified and independent audit committee. With reference to the above requirement, justify the need for setting up an audit committee within an organization **(10mks)**

QUESTION 4

An audit of directors' remuneration at Funiika Ltd, a listed company has established that the Managing Director, Mr. Anson Mweni, is the highest paid director of the company with an annual pay of Sh. 36 million. As you peruse some of the Company's recent purchase invoices, you notice the part of the invoices totaling Sh. 12 million relate to repair works undertaken at Mr. Mweni's house. Although Mr. Mweni authorized that Mr. Mweni has ignored internal advice to include the Sh. 12 million as part of his annual benefit and for the financial statements to be amended to reflect the proposed change in treatment of the item. The company's profit before tax for the year before any adjustments amounted to Sh. 640 million. The company's Annual General Meeting (AGM) is due to be held soon.

Required:

- i. Assess whether the undisclosed remuneration is material in the above context. Justify your conclusion. **(5mks)**
- ii. Assume further that Funiika Ltd has an Audit and Risk Committee and that Mr. Mueni owns less than 1% of the issued shares. You have gathered hints that Mr. Mweni intends to push for replacement of your firm as auditors for the current financial year should you attempt to quality the audit report. **(7 mks)**
- iii. Describe, indicating any other institutions that you will involve, the matters that you will consider and the actions that you will take to protect the interests of the company's shareholders and the integrity of your firm. **(8mks)**

QUESTION 5

The auditor needs to examine investments held by the parent company to determine whether an investment constitutes an associate company or a subsidiary company. In most cases, the auditor will not have a problem in identifying subsidiary companies.

However, the process by which the auditor obtains sufficient evidence to confirm the position taken by a client company to determine whether or not the investment constitutes a subsidiary undertaking is or major concern to the auditor.

The precise shareholding can be ascertained from the register of members of the potential subsidiary undertaking. Examination is then required of the particular circumstances against the relevant definition. Once the group members have been identified, the auditor will be particularly concerned with the accounting treatment and accounting policies of the group companies.

Required;

Discuss the matter an auditor would consider when auditing the financial statements of group companies with respect to the followings;

- a) Accounting policies **(5mks)**
- b) Consolidation Adjustments **(5mks)**
- c) Loss making subsidiaries **(5mks)**
- d) Contingent liabilities and events after the reporting period **(5mks)**