



*(University of Choice)*

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

**MAIN/BUNGOMA/WEBUYE/NAIROBI/MUMIAS CAMPUS**

**UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR**

**FOURTH YEAR SPECIAL/SUPPLIMENTARY EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF COMMERCE**

**COURSE CODE: BCA 450**

**COURSE TITLE: AUDITING AND INVESTIGATION**

**DATE: MONDAY, 1<sup>ST</sup> AUGUST 2022    TIME: 8-10AM**

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**INSTRUCTIONS TO CANDIDATES**

Answer QUESTION ONE and ANY OTHER TWO (2) questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. ►

**QUESTION ONE. Read the annexure passage (page 3 & 4) and answer the questions that follow (30 marks)**

- (i) Briefly explain the concept of fraud. (2 marks)
- (ii) State and explain two types of fraud that may be encountered in a social organization. (4 marks)
- (iii) From the passage, briefly identify the common type of fraud in state corporations in Kenya today. (6 marks)
- (iv) Should frauds be investigated by internal audit or external auditors? Explain your answer. (4 marks)
- (v) Briefly state and explain corporate governance structure for internal audit that may secure the corporate internal audit function. (6 marks)
- (vi) How can confidentiality be safeguarded within an investigation framework (6 marks)
- (vii) Based on the passage does this structure exist among the mentioned state corporations? (2 marks)

**QUESTION TWO**

- a) Briefly explain the concept of audit evidence? (2Marks)
- b) You have been assigned the task of collecting audit evidence in respect of XYZ Co ltd financial audit. Briefly explain the steps you would follow to ascertain that the statement of financial position and income statement are free of material misstatement. (12 Marks)
- c) What are management assertions and what is the importance to the auditor? (6 Marks)

**QUESTION THREE**

It's important to recognize that audit sampling may be constructed on a non-statistical basis typically using haphazard selection methods and placing no reliance upon probability theory. If the auditors use statistical sampling, probability theory will be used to determine the sample size and random selection methods to ensure each item in the population has the same chance of selection. However, in certain circumstances statistical sampling techniques may be difficult to use. The auditors will review the circumstances of each audit before deciding whether to use statistical or non-statistical sampling.

**Required:**

- (a) List four situations where the auditors would be unlikely to use audit sampling. (4 Marks)
- (b) Differentiate attribute sampling from monetary unit sampling. (3 Marks)
- (c) Highlight five factors which auditors should consider when determining the size of a sample. (5 Marks)
- (d) Describe to what extend statistical sampling enhances the quality of the audit evidence (3 Marks)

**QUESTION FOUR**

The International Auditing Practices Committee requires that doubts about the going concern presumption be detected and adequately disclosed in the financial statements and auditors' reports.

**Required:**

- (a) Explain the term "going concern" in relation to the preparation of financial statement. (2 Marks)

- (b) Describe the audit procedures the auditor should undertake in order to obtain sufficient audit evidence to be able to form an opinion on the going concern status of the company.  
**(5 Marks)**
- (c) List financial factors which might cast doubt on the going concern status of a company.  
**(5 Marks)**
- (d) Discuss briefly how the present responsibilities of the auditor regarding the going concern status of company could be extended.  
**(3 Mark)**

Auditors pay the price for exposing corruption MONDAY FEBRUARY 13 2017 By EDWIN OKOTH  
When former head of internal audit at the Ministry of Health Bernard Muchere lifted the lid on a questionable expenditure of Sh5.1 billion at Afya House, he did not last long. The certified fraud examiner who had only been seconded to the ministry from the Treasury three months earlier was recalled in a move many interpreted to be driven by the need to tame him. Not even criticism from a section of Senators who termed the move as “punishment” for the auditor who had done his work well, helped to save him. Mr Muchere is not alone. Many of his colleagues have been victims of their profession as forces against integrity and corporate discipline take on internal auditors out to expose fraud within. The trend cutting through public and private companies now threatens the integrity of a critical department as firms shoot friendly fires on their own in the war against financial mismanagement. Auditor General Edward Ouko recently survived narrowly himself as pressure mounted on the Director of Public Prosecution Keriako Tobiko to prosecute him for abuse of office and procurement-related fraud. The DPP found him clean but that was not the first attack directed at Mr Ouko as his office continues to reveal financial mismanagement in top government offices and in the process stepping on big and sensitive toes.

The Institute of Certified Public Accountants of Kenya, which is the professional body for auditors, says the trend is worrying as corporate governance is at risk with more auditors being victimised for performing their jobs. ICPAK Chairman Fernandes Barasa said auditors only express their opinion on how organisations have kept books of account in accordance with the global reporting norms as issued by International Accounting Standards Board(s) and should not be victims in case of “misgivings”. “In such an eventuality definitely there are risks in as far as corporate governance is concerned. Such actions are also in contravention with several provisions as espoused in Constitution (2010) and related statutes including the (Public Finance Management Act of 2012); Companies Act of 2015; Accountants Act; CMA Act and regulations etc,” Mr Barasa wrote. The organisation, which has 1,250 registered auditors, said they had received about 10 incidents of their members being victimised last year although many cases go unreported. There are also a number of auditors not registered with ICPAK meaning the cases could be in their hundreds. Cases of internal auditors falling victims of their own work have been rampant recently, especially in State corporations.

Auditors who usually get transfers, compulsory leave or outright dismissals, paint a picture of how whistle blowers have become targets. A legal battle currently in court between the Kenya Pipeline Company and three of its former employees suspended after unearthing massive rot in procurement involving top management is the latest of such happenings. One of the former accountants in a sworn affidavit claims that he was wrongfully targeted after his audit revealed wanton wastage, questionable tender process and possible fraud in a Sh400 million bid for purchase of materials meant to repair the old Mombasa-Nairobi pipeline.

The internal audit now attached as part of the exhibits in a court petition chronicles wastage of taxpayers’ millions after the State corporation procured materials in excess and which were about to expire leading to massive wastage. KPC immediately deployed the auditor to Mombasa from his Nairobi station before suspending him shortly after the report reached the top management. “During the aforesaid assignment, I

made an honest, transparent and professional audit report which I submitted to my supervisor. I only learnt later that the top management were uncomfortable with the Draft Audit Report as it disclosed fraudulent dealings by them which caused me a transfer and deployment purely on malicious grounds and out of vendetta from the respondents and the concerned officers,” Mr Mwendwa Titus wrote in an affidavit.

A similar scenario played out at the National Oil Company (Nock) after internal auditors who raised eyebrows on tender procedures were slapped with suspension and sacking. Mr Paul Masinde Simidi who worked for Nock as the internal audit manager found himself in trouble when he cited non-compliance with the provisions of the Public Procurement and Disposal Act 2005 with respect to procurement, receipt and inventory management of oil products and acquisition of petrol stations from Total Kenya Limited. He would later submit another internal audit report highlighting irregular payment of Sh967,260 to Reliable Concrete Limited and other irregular payments to various contractors in the sum of Sh2.7 million and Sh116,830 being retention money to Mass Petroleum Limited. The audit opened the lid on a contract variation at the rate of 187 per cent of the original contract on account of Prowalo Co Limited as well as pointing fingers at cost mismanagement in the operations departments and a litany of alleged corruption cases within Nock. The move earned him a warning letter in May 2011, accusing him of breach of confidentiality and integrity and leakage of confidential and vital company information to unauthorised persons. Nock would later turn the tide against him terming his audits, “reactive” and used for witch-hunting, abuse of office, causing fear and anxiety in the company and contributing to staff exits. Mr Simidi was consequently suspended and later interdicted. He went to court demanding Sh6.2 million from his former employer for violating his rights and freedoms. Employment and Labour Relations Court judge Linnet Ndolo in a judgment delivered on November 30, 2015 ruled that Nock should pay Mr Simidi Sh3 million in general damages and that his terminal benefits be tabulated as agreed upon by his lawyers and that of Nock.

“Whatever motivates the respondents (Nock and Ms Hassan) to disobey their own decisions, this is a classic case of corporate governance thrown out of the window and a hapless employee caught in the mix. This is a mark of impunity in a public body which must be firmly discouraged,” said Justice Ndolo. Auditors who spoke to *Smart Company* said unlike their external colleagues who can be “negotiated” with, their hands are tied since they are obliged to tell their employers the truth about financial management even when it turns out to be unpalatable.

They also stand accused if they fail to raise the red flag on such occurrences leaving them between two hard options both of which have negative repercussions on them. In most cases, their work is quietly rubbished before another auditor is hired to conduct a cover-up which then cut their links with their employers before transfers or dismissals are effected. In the case of the Afya House audit, another team was brought on board to relook at Sh5.2 billion said to have been misappropriated. ICPAK immediately reacted to the move terming it as misguided. We must nurture healthy working relations with internal audit function and seek an understanding that the role of internal audit is to point out potential risk exposures,” Mr Barasa said as he called for a whistle-blower protection policy and enabling legislation to protect all whistle-blowers in Kenya. “Consequently, both parties must at all times agree on expectations to which they must remain focused as a matter of principle.”