



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

**MAIN /NAIROBI, /BUNGOMA, /WEBUYE CAMPUS,**

**UNIVERSITY EXAMINATIONS  
2021 /2022 ACADEMIC YEAR**

**SECOND YEAR SEMESTER TWO EXAMINATIONS**

**FOR THE DEGREE  
OF MASTER OF BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 820**

**COURSE TITLE: PRINCIPLES OF AUDITING**

**DATE: MONDAY, 25<sup>TH</sup> JULY 2022**

**TIME: 2-5 PM**

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**INSTRUCTIONS TO CANDIDATES**

Attempt QUESTION ONE and any other two questions

TIME: 3 Hours

MMUST observes ZERO tolerance to examination cheating

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

### QUESTION ONE

1. a) "Tone at the top" is referred to as the foundation of any internal control system. Explain (10mks)
- b) To an auditor, evidence must be sufficient and appropriate. Give an outline of five aspects which guides auditor's judgment on that (5mks)
- c) The management of MMUST established an internal audit unit which is headed by a professional qualified auditor. Discuss any five justifications the management considered in the establishment of the unit (5 mks)

### QUESTION TWO

2. a) You are the audit manager in Mushrooms P Associates. One of the application files you are reviewing is that of Buru Ltd. The Managing Director of Buru Ltd. Has invited your firm to quote or tender for its audit. Buru Ltd. Is a small owner-managed company providing financial services such as arranging mortgages and advising on pension plans.

The company's previous auditors recently resigned. The Managing Director of Buru Ltd, states that this was due to "a disagreement on the accounting treatment of commission earned and further because they thought their controls were not very good".

You are aware that Bum Ltd has been investigated by the Financial Services Authority for alleged non-compliance with its regulations.

As well as performing the audit, the Managing Director would like your firm to give business development advice.

Required:

Discuss six ethical and other professional issues raised in the above scenario and recommend any actions that should be taken. (20mks)

### QUESTION THREE

EXY of Electronics designs, develops, manufactures and markets a wide range of personal computing products including desktop computers, portable computers, network servers and peripheral products that store and manage data in network environments. The School markets its products primarily to businesses, homes, and government and education customers. The school operates in one principal industry segment across geographically diverse markets.

The school is subject to legal proceedings and claims which have arisen in the ordinary course of its business. The University management does not believe that the outcome of any of these matters will have a material adverse effect on the University's consolidated financial position or operating results.

Required:

With reference to the above scenario and introducing other relevant information as may be applicable, discuss four issues that an audit firm should consider before accepting to audit EXZ Ltd of Electronics. (20mks)

### QUESTION FOUR

- a) Advancement in technology has seen quality of audit works improve and the Auditee's work minimally interfered with. Explain (5mks)
- b) Under what circumstances are the different audit opinions given (10mks)
- c) Describe any five emerging issues in auditing (5mks)

QUESTION FIVE

Risk assessment and management are key in the examination of accounting and internal control systems of an entity. Assume you have been contracted by one of the public universities to perform a risk assessment in five of its key functional areas and suggest appropriate risk response mechanisms. Prepare a hypothetical risk assessment and management matrix. (20mks)