



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

MAIN /NAIROBI, /BUNGOMA, /WEBUYE CAMPUS,

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

THIRD/SECOND YEAR SEMESTER ONE EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE/BSC ACCOUNTING**

COURSE CODE: BCA 320

COURSE TITLE: PRINCIPLES OF AUDITING

DATE: THURSDAY, 15TH DECEMBER, 2022 TIME: 3.00-5.00PM

INSTRUCTIONS TO CANDIDATES

Attempt QUESTION ONE and any other two questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

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QUESTION ONE (30 MARKS)

(a) Your firm has been engaged in auditing small entities for the last five years. In recent development, your firm has been appointed to conduct an audit on a large entity: which is the first assignment of such magnitude. You are required to undertake an interim audit and final audit of the large entity

Required:

- i) Explain the objective of the external audit (10marks)
- ii) Highlight five audit procedures you could undertake during the interim audit of the large entity (10marks)
- iii) Present two draw backs of using conducting an interim audit (2marks)
- iv) Describe four components of the internal control system that would be of interest to your team (8marks)

QUESTION TWO (20 MARKS)

Grow fast plc was formed on 1st august, 2022 in order to manufacture Baby Toys. The directors are unsure as to their responsibilities and the nature of their relationship with the external auditors

including why an engagement letter is required. The audit partner has asked you to visit the client and explain to the directors the more fundamental aspects of the accountability of the company and their relationship with the auditors.

Required:

a) Explain to the directors of Grow fast plc:-

- i) Any four Auditors' rights under the Companies Act of 2015 (6 marks),
- ii) Why it is important that an auditor should send a letter of engagement to the client prior to undertaking the audit. (5 marks)
- iii) The auditor's report is the end product of any audit assignment. With reference to the above statement, discuss six elements of the auditor's report. (9 marks)

QUESTION THREE (20 MARKS)

a) Inherent risk has been defined as the susceptibility of an assertion to a misstatement that could be material individually or when aggregated with other misstatements assuming that there were no related internal controls.

To assess inherent risk, the auditors use their experience of the entity from previous audits together with professional judgement to evaluate numerous factors.

With reference to the above statement, identify:

- i) Three such factors at the financial statements level. (6 marks)
 - ii) Three such factors at the account balance and class of transactions level.(6 marks)
- b) Detailed audit work on inventories is imperative in an audit. However, there are other analytical review procedures that are equally important in the audit of inventories. Highlight four such analytical review procedures. (8 marks)

QUESTION FOUR (20 MARKS)

Write brief notes on the following audit techniques

- i) Inspection
- ii) Observation
- iii) Enquiry and confirmation
- iv) Analytical procedures
- v) Recalculation and performance