



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE

**BAC 4302: AUDITING I**

END OF SEMESTER EXAMINATIONS

**SERIES: AUGUST 2014**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Three printed pages***

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**QUESTION 1 (Compulsory)**

A new Procurement Manager has recently been recruited at ABC Ltd, a manufacturing company. On taking over the office he discovers that the personnel in the department are always receiving bribes and that the department has been losing the company's money through fraudulent transactions and overpriced purchases. There have been payments made to suppliers for goods that they have not delivered. The company is also suffering due to very high raw materials obsolescence and inferior materials. Recently the company was sued over unpaid debts and unfortunately when the accountant was asked how much the company owes, he could not give an objective amount. He finally confessed that the procurement department does not furnish him with information on credit purchases and so he only knows the amounts outstanding when he receives invoices from suppliers. The Procurement Manager has discovered that his predecessor was sacked in a bid to clean up the department. He has engaged your audit to help in streamlining the procurement department.

**Required:**

- a) Distinguish between auditing and investigation. **(5 marks)**
- b) Propose and explain **FIVE** practical internal controls that you would establish in the procurement department to improve the handling of purchases and creditors in ABC Ltd. **(10 marks)**
- c) Suggest any **FIVE** activities in this department over which there should be segregation of duties. **(5 marks)**
- d) What is the main role of internal audit with respect to internal controls? **(5 marks)**
- e) How will the external auditor assure himself that internal audit is effective? **(5 marks)**

**QUESTION 2**

- a) ISA300 states that the auditor should develop and document an audit program setting out the nature, timing and extent of planned audit procedures required to implement the overall audit plan. Identify and discuss **FIVE** important issues that the audit plan should cover. **(10 marks)**
- b) The auditing guideline on planning, controlling and recording contains the following statement with regard to working papers: “audit working papers should always be sufficiently complete and detailed to enable an experienced auditor with no previous connections with the audit subsequently to ascertain from them what work was performed and to support the conclusions reached”

**Required:**

Describe **FIVE** benefits that the auditor will obtain from working papers that meet the above requirements. **(10 marks)**

**QUESTION 3**

List and explain the ethical guidelines issues by KPAK to its members. **(20 marks)**

**QUESTION 4**

- a) Who is charged with the responsibility for the prevention and detection of frauds and errors and what measures are supposed to be put in place? **(10 marks)**
- b) What action should the auditor undertake if he detects errors and frauds while carrying out a review of the client’s financial statements? **(10 marks)**

## QUESTION 5

Write short notes on the following:

- a) Materiality **(5 marks)**
- b) Control environment **(5 marks)**
- c) Control risk **(5 marks)**
- d) Time and fair view **(5 marks)**
- e) Peer review **(5 marks)**