TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE & BACHELOR OF BUSINESS ADMINSTRATION

BAC 4306: AUDITING II

END OF SEMESTER EXAMINATION

SERIES:JULY 2025

TIME: 2 HOURS

DATE: Pick Date Aug 2025

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question One (compulsory)

a) Auditors use assertions in assessing risks by considering potential misstatements that might occur and thus designing audit procedures that respond to each risk.

Evaluate **FIVE** financial statement assertions about classes of transactions and events for the period ended. **(10 marks)**

b) Your firm has been auditing Arial Bank which is listed in the securities exchange. As a policy, you are required to evaluate the independence of the firm and all the team members involved in the audit engagement. The audit team is assessing its independence in relation to Arial Bank's audit.
Discuss **FIVE** factors that might compromise independence of the team members involved in this audit. **(10 marks)**

c) Describe five internal control procedures for a sales unit in an organization. **(10 marks)**

(Total 30 marks)

Question Two

(a) Sheila Limo is the audit senior of K and R Associates. She is the one responsible for the audit of Kula Ltd, a manufacturing company. Sheila has called for a meeting with her junior auditors to discuss how they will go about carrying out tests of control and substantive tests on salaries and wages of Kula Ltd.

Required:

(i) Distinguish between "tests of control" and "substantive tests "by giving example. (6 marks)

(ii) Summarise FOUR tests of control in relation to salaries and wages of Kula Ltd. (8 marks)

(iii) Propose THREE substantive tests that Sheila Limo might perform on salaries and wages of Kula Ltd. (6 marks)

(Total 20 marks)

Question Three

During the course of an audit, the auditor attempts to obtain sufficient relevant and reliable evidence to provide the satisfaction that the financial records are completed and accurate. One of the ways that the auditor obtains satisfaction is to select representative samples of transactions and balances for detailed testing, such samples being made using either statistical of non-statistical methods.

Required:

a) Describe the main factors which influence the auditor in determining the size of the sample he will use for his detailed testing. (12 marks)

b) Describe three areas where the judgment will be exercised by the auditor when using statistical sampling. (8 marks)

(Total 20 marks)

Question Four

a) Briefly explain how the auditor can use each of the following methods of sample selection when carrying out his audit assignment;

i) Stratified sampling (2 marks)

ii) Cluster sampling (2 marks)

iii) Haphazard sampling (2 marks)

iv) Block sampling (2 marks)

b) Explain four factors to consider before relying on work of expert as external auditor. (8 marks)

c) Explain difference between adjusting events and non-adjusting events (4 marks)

(Total 20 Marks)

Question Five

Inspection and monitoring of quality control by a firm of auditors involves both in-house and external procedures. The internal procedures include the post-audit review, sometimes known as a "cold review". The external procedures are sometimes known as "external practice inspections" or "peer reviews".

Required:

a) Write explanatory notes on the "cold-review and hot review". (6 marks)

b) Explain the advantages and disadvantages of the "peer review". (14 marks)

(Total 20 marks)