



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR EDUCATION WITH  
IT

3<sup>RD</sup> YEAR 1<sup>ST</sup> SEMESTER 2022/2023 ACADEMIC YEAR

MAIN

COURSE CODE: BAB 1307

COURSE TITLE: AUDITING 1

DATE: 21/12/2022

SESSION.....9.00 – 11.00

TIME: 2 HOURS.

VENUE.....

#### Instructions

1. Answer Question 1 (Compulsory) and ANY other two questions
2. Candidates are advised not write on the question paper
3. Candidates must hand in their answer booklets to the invigilator while in the examination room

## QUESTION ONE

The audit process can be broken down into four main stages :

- i. Planning
- ii. Audit Programme preparation
- iii. Performance of audit task
- iv. Reporting

You are required to describe the main steps in the audit process by referring to the four main stages outlined above. You should assume that the audit firm uses used based auditing approach **(15 Marks).**

- i. Explain what you understand by the following techniques of audit testing. You should describe briefly the nature and reliability of each technique and give an example of each.
  - i. Inspection
  - ii. Observation
  - iii. Enquiry

**(15 Marks)**

**(30 Marks)**

## QUESTION TWO

The Auditing Practices Board (APB) was established in 1991 to advance standards of auditing and provide a framework of practice for the exercise of the auditor's role.

### *Required*

- (a) Explain the scope and authority of statements of Auditing Standards**(5 Marks)**
- (b) One of the stated objectives of the APB is to ensure public confidence in the auditing process.

Discuss the extent to which you believe that users of financial statements are reassured regarding the following matters:

- i. Fraud
- ii. Going concern
- iii. Internal control

(you may wish to refer to the relevant SAS's to clarify the auditors responsibilities in relation to each of the above). **(15 Marks)**

**(20 Marks)**

### QUESTION THREE

There are many reasons for maintaining internal control systems. These include the need to ensure that:

- i. Transactions are properly authorized
- ii. Transactions are promptly and accurately recorded
- iii. Access to assets and recorded is properly authorized
- iv. Recorded assets represent actual assets

In the absence of internal controls, errors, omissions and misappropriation of assets are likely and external and internal auditors pay attention to both the designs and operation of internal control systems.

Debtors is an area in which most organisations expect internal controls to be operating effectively.

#### ***Required***

- (a) In the context of the, list and describe the types errors, omissions and misappropriation of assets that can occur in practice where the internal control are weak or non-existent. **(4 Marks).**
  - (b) Explain why even a good of internal control will not necessarily prevent or detect errors, omissions and misappropriation of assets in a debtor system and explain why a good system of internal control system of internal is important to auditors **(4 Marks).**
  - (c) List the main internal controls that you would expect to be in operation in the debtors system at a small manufacturing company with a computerized accounting system. **(9 Marks).**
  - (d) Explain why external auditors seek to rely on the proper operation of internal controls wherever possible. **(3Marks).**
- (Total 20 Marks)**

### QUESTION FOUR

Working papers provide the audit evidence. They can be categorized into:

- i. Auditors prepared working papers.
- ii. Client 's schedules used as working papers.
- iii. Audit programmes.

Working papers are then organized into files usually referred to as either current files of permanent files.

***Required:***

- a) What details should each working paper which is prepared by an auditor indicate? (5 marks)
- b) What details should each client schedule used as a working paper indicate? **(4 marks)**
- c) What details should an audit programme indicate? **(5 marks)**
- d) With appropriate illustrations, differentiate the use and contents of a permanent file from a current file and write brief notes on the evidence that is provided by working papers. **(6 marks)**

**(Total: 20 marks)**

**QUESTION FIVE**

You have been appointed the auditor of United Millers Company Limited, a medium manufacturing company which is quoted on the stock exchange.

**Required:**

- a) List the important matters which must be included in the letter of engagement. **(14 marks)**
- b) Explain the purpose of such a letter. **(6 marks)**

**(Total: 20 marks)**