



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR IN BUSINESS

ADMINISTRATION WITH IT

**3RD YEAR FIRST SEMESTER 2023/2024 ACADEMIC YEAR
MAIN/KISUMU CAMPUS**

COURSE CODE: BAB 1307

COURSE TITLE: AUDITING 1

DATE:

EXAM SESSION:

TIME:

Instructions

- 1. Answer Question ONE and any other TWO**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

(a) Explain why management is sometimes unwilling to sign a letter of representation and describe the actions an external auditor can take if management refuses to sign a letter of representation. **(10 marks)**

(b) Bondo Ltd designs and manufactures luxury cars. The company employs about 2000 staff and consistently makes net profits of between 15 and 20%. It is not listed and shares are held by a small number of individuals, most of whom are also executive directors of the company. They run the company successfully and have a“hands on” approach to the business.

There are currently no non-executive directors. The board of directors are considering expanding the company in the near future.

The finance director has recently left the company and not yet been replaced. The bank are reluctant to provide funding until a new FD has been appointed as they have concerns about the standard of financial reporting.

The company has an internal audit department although the head internal auditor feels that the board do not understand his reports or the need for improvements to internal controls. The external auditors, who are appointed by the board of directors, have also expressed concern about the fact that the internal audit department focus on controls systems rather than financial reporting.

The board are considering a proposal from the head internal auditor that they establish an audit committee. This would consist of one executive director, the head internal auditor and three new appointees, one of whom would be a new non-executive director.

Required:

Discuss five benefits to Bondo Ltd of forming an audit committee. **(10 marks)**

(c) Briefly discuss the limitations of Internal control (10 marks)

QUESTION TWO

(a) What is the significance of “independence” in relation to audit work? **(10 marks)**

(b) When an auditing exercise is being practised ,there are rules and guidelines governing the audit work as a profession. What are “generally accepted accounting principles? **(10 marks)**

QUESTION THREE

(a) In addition to shareholders, many different parties are interested in the audited accounts of a company. Name FOUR such parties and state the significance of audited accounts to each one of them. **(10 marks)**

(b) What are the similarities and differences between internal and external audits?

Similarities between internal and external audits. **(10 marks)**

QUESTION FOUR

(a) Give four examples of internal audit work that may e used by the external auditor. **(10 marks)**

(b) Explain why auditors carry out circularisation of debtors. **(5marks)**

QUESTION FIVE

(a). List and briefly explain five disadvantages of an interim audit. (**10 marks**)

(**b**) Explain the steps before an audit processes? (**10 marks**)