

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE & TECHNOLOGY**

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

ABA 317: Auditing II

Date:.....

Time: .....

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THIRD YEAR SECOND SEMESTER EXAMINATION

(3<sup>rd</sup> Year, 2<sup>nd</sup> Semester 2017)

FOR

THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION

(MAIN CAMPUS)

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INSTRUCTION

- Question ONE is compulsory, and MUST be attempted
- Answer any THREE questions from the four.
- Read each question carefully and attempt any 3 questions out of the 4.
- Show all your workings clearly

## QUESTION ONE

- i. According to International Auditing Standards (IAS) objectives of an audit may be classified in two categories, list and describe these two categories. 6mrks
- ii. Highlight how the audit work necessary to detect fraud and technical errors differs from the work required to carry out a statutory audit of a limited company with an adequate system of internal control. 9mrks
- iii. The auditor has both statutory and professional obligations to achieve certain objectives in an audit procedure; list and explain five practical limitations encountered in achieving these objectives. 10mrks

## QUESTION TWO

- i. Describe the principles of internal control system, distinguishing between internal check and internal audit. 3mrks
- ii. Explain the qualities of a good internal control questionnaire (ICQ) 3mrks
- iii. The Kenyan Auditing Standard states that “If the auditor wishes to place reliance on any control, he should ascertain and evaluate controls and perform compliance test on their operations”
- a) Why does management implement a system of internal control 3mrks
- b) How would you as an auditor ascertain and evaluate a system of internal control 3mrks
- iv. Give examples of internal audit that may be used by external auditor 3mrks

### **QUESTION THREE**

- i. Discuss the audit procedure and techniques. 2.5mrks
- ii. Define audit working papers; explain the objectives of working papers. 2.5mrks
- iii. Write short notes on the following;
  - a. Vouching 2mrk
  - b. Surprise check 2mrk
  - c. Audit in depth 2mrk
  - d. Walk through tests 2mrk
  - e. Substantive tests 2mrk

### **QUESTION FOUR**

- i. Your Audit Company has been assigned to audit non-current assets of JOOUST University.
  - a. List and describe three audit objectives in the audit of non-current assets 6mrks
  - b. Highlight controls you would expect to find while auditing the assets. 4mrks
  - c. What would be the main considerations in verifying depreciation? 5mrks

### **QUESTION FIVE**

- i. Computer-Assisted Audit Techniques (CAATs) are used to assist an auditor in the collection of audit evidence from computerized systems. List and explain advantages of CAATs. 4mrks
- ii. Wilstar, a limited liability company, is a reseller of sports equipment, specializing in racquet sports such as tennis, squash and badminton. The company purchases equipment from a variety of different suppliers and then resells this using the Internet as the only selling media. The

company has over 150 different types of racquets available in inventory, each identified via a unique product code. Customers place their orders directly on the Internet site. Most orders are for one or two racquets only. The ordering/sales software automatically verifies the order details, customer address and credit card information prior to orders being verified and goods being dispatched. The integrity of the ordering system is checked regularly by Kenya Data Network, an independent Internet service company.

You are the audit manager working for the external auditors of Wilstar, and you have just started planning the audit of the sales system of the company. You have decided to use test data to check the input of details into the sales system. This will involve entering dummy orders into the Wilstar system from an online terminal.

Required:

List the test data you will use in your audit of the financial statements of Wilstar to confirm the completeness and accuracy of input into the sales system, clearly explaining the reason for each item of data. 7mrks

iii. You are also considering using audit software as part of your substantive testing of the data files in the sales and inventory systems of Wilstar. List and briefly explain some of the difficulties of using audit software; 4mrks