



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS

**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT**

4TH YEAR 1ST SEMESTER 2022/2023 ACADEMIC YEAR

MAIN CAMPUS

COURSE CODE: BAB 1401

COURSE TITLE: AUDIT THEORY AND PRACTICE

EXAM VENUE:

STREAM: (BBA)

DATE:

EXAM SESSION:

TIME: 2 HOURS

INSTRUCTIONS:

- 1) Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 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 (30 MARKS)

Distinguish between Permanent audit File and current audit file in line with ISA 230 **(4 Marks)**

- i. Explain five basic elements of an audit report (10Marks)**
- ii. The companies Act requires that all limited liability companies to appoint an auditor whose task is to express an independent opinion as to whether financial statement show true and fair view of the financial performance and position of the company. A medium sized**

Processing Enterprise has provided the following data as part of information informing the financial statements.

Statement of financial position

	FYR Ending 31 ST December, 2021	FYR Ending 31 ST December, 2022
	Kshs.(000)	Kshs.(000)
ASSETS		
Non-Current Assets		
Furniture and fittings	32,000	32,000
Production Equipment	4,800	3,600
Biological Assets	772,200	764,400
Housing structure for poultry and BSF	106,200	230,400
Machinery and Equipment	51,000	42,000
Feed crusher 7.5 HP	31,800	28,600
Total Non-Current Assets	<u>998,000</u>	<u>1,101,000</u>
Current Assets		
Bank and Cash Balances	3,395,560	3,972,128
Total Current Assets	<u>3,395,560</u>	<u>3,972,128</u>
TOTAL ASSET	<u>4,393,560</u>	<u>5,073,128</u>

Based on the above information and account balances for fixed and current assets, explain how the auditor will obtain evidence in relationship to the following assertions

- i. Existence **(3Marks)**
 - ii. Completeness **(3 Marks)**
 - iii. Rights and obligations. **(3Marks)**
 - iv. Valuation and allocation **(3 Marks)**
- a. **ISA 240** states clearly in paragraph 240.13 that the **primary** responsibility for the prevention and detection of fraud rests with the **management** and those charged with governance of the entity. Assuming you have been engaged as an auditor for a firm dealing with Petroleum products (a Petrol station) along Thika Road in Nairobi ,outline five potential fraud areas and suggest appropriate remedy to be instituted by management in each case to minimize fraud **(4Marks)**

QUESTION TWO

(20 MARKS)

- a) Code of ethics and best practice defines Independence as a state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allows an individual to act with integrity and exercises objectivity and professional judgement. Explain circumstances under which an auditor's independence may be compromised. (12Marks).
- b) The major reason an independent auditor gathers audit evidence is to support their conclusions related to financial statement items. Explain the importance of audit evidence (8 Marks)
- c) (8Marks)

QUESTION THREE

(20 MARKS)

- a) Discuss the need for Good working papers with respect to an audit assignment (10Marks)
- b) Discuss the contents of Audit planning memorandum (10 Marks)

QUESTION FOUR (20 MARKS)

- a) ISA 300 provides guidance on the considerations and activities applicable to planning an audit of financial statements. Outline five potential challenges to audit planning. (5Marks).
- b) **ISA 620 provides the basis upon which** the auditor should obtain sufficient appropriate audit evidence that the work of the expert is adequate for the purpose of the audit. Explain five Factors the auditor has to consider before relying on the work of the expert. (10 Marks)
- c) ABC Ltd incorporated in Kenya has subsidiaries in Tanzania and Uganda. Outline five potential contemporary issues that may affect the work of an auditor in discharge of his statutory duties. (5Marks)

QUESTION FIVE (20 MARKS)

- a) Outline five basic roles of Management representation letter (5Marks)
- b) Distinguish between Unqualified and Disclaimer audit reports (5Marks).
- c) **ISA 315** states that the auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting. Explain any five sources of information that an auditor may use on a new assignment. (10 Marks)