

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2016/2017**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR

OF COMMERCE AND COOPERATIVE MANAGEMENT

SECOND YEAR FIRST SEMESTER BACHELOR OF COMMERCE

AND

FIRST YEAR FIRST SEMESTER DEGREE OF BACHELOR OF PURCHASING AND

SUPPLIES MANAGEMENT

**BFC 3228: PRINCIPLES OF AUDITING**

**DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

You are the audit senior and are about to go on an audit with a newly recruited audit trainee who has never been on an audit before. As part of the pre-audit briefing meeting, your manager has asked you to summarize in writing for the audit trainee the audit work involved in the major elements of the audit process

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**Required:**

1. Explain to the audit trainee the main tasks involved in each of the following elements of audit process:
2. Planning the audit (6 marks)
3. Carrying out the audit procedures (9 marks)
4. Completing the audit and giving an audit report (5 marks)
5. Explain the services other than auditing commonly provided by firms of professional accountant (10 marks)

**QUESTION TWO (20 MARKS)**

Auditors should obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusion on which to base their audit opinion:

**Required:**

1. Discuss the quality of audit evidence generated by direct confirmation techniques giving four examples (8 marks)
2. Explain how an auditor would assess the sufficiency and appropriateness of a file of sales invoices as evidence for the credit sales figure in the accounts (4 marks)
3. A construction company has constructed a warehouse on its own land for its own use. Explain how the auditors obtain the audit evidence they need about the building

(8 marks)

**QUESTION THREE (20 MARKS)**

Manu producers limited is a family company that has been in operation for the last 10 years. The company’s auditors John kamau has just relocated t South Sudan for greener pastures and he is not likely to come back soon.

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Ruth Wanjiku one of the directors of the company has approached you with a request that your firm accepts appointment as auditors to the company. Further she has asked you or one of your partners to accept to be a director of the company. She has also requested whether one of your members of staff would take upon the position of the company secretary.

Required:

1. Steps to be taken to establish your firms appointment as auditors (8 marks)
2. The matters which you feel should be included in a suitable engagement letter

(6 marks)

1. Your proposed reply, giving your reasons to the request that you or one of your partners should accept appointment as a director and that one of the staff members should accept appointment as a company secretary (6 marks)

**QUESTION FOUR (20 MARKS)**

1. State four major matters you expect to find in a letter of engagement showing clearly each case the reason for inclusion of the matter in concerned (7 marks)
2. Your firm intends to send another engagement letter to a client of long standing who has already had such a letter when engagement commenced. Give concise reason for adopting such an approach. (6 marks)
3. Assuming that a new client requests you to assist him in writing up the accounting records in the preparing the financial statements, indicate what steps might be appropriate to ensure that your firm’s role is properly exercised. (7 marks)

**QUESTION FIVE (20 MARKS)**

1. Discuss in details an audit program (4 marks)
2. Explain how audit program helps the auditor (6 marks)
3. Explain what kind of information from five third parties from which the auditor can gather his evidence (10 marks)

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Foundation of Innovations Page 3