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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATIONS, 2024/2025 ACADEMIC YEAR
SECOND YEAR, FIRST SEMESTER EXAMINATION
FOR MASTER IN BUSINESS ADMINISTRATION (ACCOUNTING OPTION)

KAC 3201: AUDITING AND INVESTIGATION

DATE: 9TH DECEMBER, 2024

TIME: 11:00 AM – 2:00 PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER THREE QUESTIONS

QUESTION ONE: COMPULSORY (40 MARKS)

CASE STUDY

KENYA ASSOCIATION OF MANUFACTURERS (KAM) ANNUAL GENERAL MEETING ON 30th APRIL 2024

Businesses worldwide have been recovering from the disastrous effects of COVID-19. Sole enterprises, partnerships, limited companies and even non-profit making organizations were all affected. Even though most management teams indirectly blamed the pandemic for their below par performance, some professionals see it differently. A good example is the auditing sector. It is on this basis that KAM meeting decided to have an agenda on auditing and assurance services as one of the items under consideration. The business environment has become a small global village. This requires effective dynamism in all aspects.

During the meeting the role and importance of auditing was well articulated. "Some organizations usually assume that an audit goes beyond the examination of financial statements and yet anything beyond this should be covered in a properly drafted engagement letter" emphasized the CEO of Kenya Association of Manufacturers. The auditor gives an opinion on whether all IAS/IFRS have been complied within the preparation of the accounts he is auditing. Therefore, the auditor's main task is to audit/examine prepared financial statements, which sole responsibility falls on directors. Bankruptcy and receivership are amongst other services auditors can help businesses in financial distress. The Duties of the Liquidator under the Act and Winding-up Rules are well laid out, and members were urged to ensure that they are properly observed so that interests of stakeholders are optimally cared for. One of the members who runs a business and also practices as an auditor explained that a particular role of an audit committee is to assist in the communication process between the board and the auditors throughout the medium of the non-executive directors and it provides a useful way of assisting the latter in the discharge of their duties. An audit committee is a required for listed firms. It is important to have proper documentation as a basis of evidence. The association members were alerted that auditors rely on the audit evidence as they make an opinion in

their report. Sampling techniques are also used by auditors. Members were informed that an auditor can decide to sample on any section of the business. Therefore, it is important for proper record-keeping and documentation.

Required:

- a). The meeting articulated the importance of auditing as a profession in running of enterprises. Explain the advantages of auditing for a partnership (6 Marks)
- b). ``Some organizations usually assume that an audit goes beyond the examination of financial statements and yet anything beyond this should be covered in a properly drafted engagement letter`` emphasized the CEO of Kenya Association of Manufacturers. Explain the details of an Engagement Letter between an auditor a client in the manufacturing sector (6 Marks)
- c). ``The auditor gives an opinion on whether all IAS/IFRS have been complied within the preparation of the accounts``. Explain the relevance of International Accounting Standards and International Financial Reporting Standards in auditing (3 Marks)
- d). The Duties of the Liquidator under the Act and Winding-up Rules are well laid out, and members were urged to ensure that they are properly observed so that interests of stakeholders are optimally cared for. You are required to outline the duties of the Liquidator under the Act (3 Marks)
- e). One of the members who runs a business and also practices as an auditor explained that a particular role of an audit committee is to assist in the communication process between the board and the auditors throughout the medium of the non-executive directors and it provides a useful way of assisting the latter in the discharge of their duties. You are required to explain the roles of an audit committee (6 Marks)
- f). It is important to have proper documentation as a basis of evidence. The association members were alerted that auditors rely on the audit evidence as they make an opinion in their report. International Standard on Auditing 500 (ISA 500) lays out techniques of obtaining evidence. You are required to outline techniques that auditors use to obtain evidence (6 Marks)
- g). A complete check of all transactions and balances of a business is no longer required by/ of an auditor. Explain the reasons why auditors adopt a sampling approach (6 Marks)
- f). An audit has to make a decision on which areas to sample or not. Explain factors to consider whether or not to sample when auditing a large manufacturing firm that is a member of the Kenya Association of Manufacturers (4 Marks)

QUESTION TWO: (20 MARKS)

- a). An audit deals with large volumes of data and has to effectively sample at times. You are required to explain factors to be taken into consideration before adopting statistical techniques (8 Marks)

- b). Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Explain situations where a party is taken to be related to an entity (8 Marks)
- c.) Independence is key in audit. Explain important aspects that enhance independence (4 Marks)

QUESTION THREE: (20 MARKS)

- a). In auditing, there two files that are very important. The current audit file and the permanent audit file. You are required to describe what permanent audit file contains (8 Marks)
- b). The regulatory system in various jurisdiction has put a lot pressure on the management of listed corporate entities. You are required to outline matters to be considered by the Chairman of a new audit committee *in a listed manufacturing company* (8 Marks)
- c). Record keeping in audit is critical including filing. Explain the importance of working papers (4 Marks)

QUESTION FOUR: (20 MARKS)

- a). Auditing computerized records pose additional challenges to the auditor, Describe the main features of a computerized information system which requires the implementation of adequate alternative controls (8 Marks)
- b). Modern audit in digital records require use of software. Explain the various uses of computer audit programs in any audit exercise (8 Marks)
- c). Digital era requires various skills in work. Explain advantages of computerized auditing (4 Marks)

QUESTION FIVE: (20 MARKS)

- a) When the fixed register is reconciled to the general ledger the auditor can check the asset for physical existence by reference to the numbers and locations recorded. Explain the information that a Fixed Assets register contains (8 Marks)
- b.) An audit on several occasions has to communication with the experts in different professional fields where deemed necessary. You are required to explain matters that should be covered in such communications to enable him in the audit (8 Marks)
- c). Registers are important in a business. Discuss advantages of a Fixed Assets Register (4 Marks)