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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FOURTH YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 19<sup>th</sup> April, 2023  
Time: 11.30am – 1.30pm

**KAC 401 - AUDIT AND INVESTIGATION**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) You have been the auditor of Cross border Trading Company Ltd. for several years. The company's head office is in Nairobi, Kenya and it has considerable overseas operations. At each accounting year end, there are large debts due from overseas agents of the company (Sh. 270 million out of total debts of Sh. 680 million as of 31 December 2021). In the past, these debts have always been settled after year end, but you have insisted that the debts be the subject of a specific representation made by the company's director.

**Required:**

- i) Outline any two purposes of a letter of representation from management to the auditor. (2 marks)
- ii) Outline the audit work which should be performed when seeking evidence to substantiate the management's representations as drafted and indicated the value of the directors' representations in these circumstances. You should present your answer under the following headings:
- Existence and title. (2 marks)
  - Valuation. (2 marks)
  - Disclosure. (2 marks)
- iii) State what action you would take if the directors refused to provide you with a letter of representation. (3 marks)
- b) List the factors, which the auditors should bear in mind when assessing the inherent risk and control risk (audit risk) of a company. (3 marks)
- c) Risk-based auditing is often associated with the use of statistical sampling techniques in auditing. Explain why the risk based auditing and statistical sampling techniques are associated. Give an illustration of the circumstances under which statistical sampling techniques are either appropriate or not appropriately associated to risk-based auditing. (3 marks)

- d) Explain why there has been an increased use of risk-based auditing approach in recent years and what advantages for the auditors from the adoption of such an approach. (3 marks)
- e) Nyama Safi Company has been in operation since early 2009 buying live animals for slaughter and sale of meat and meat products. Due to stiff competition from small and medium meat companies, the company experienced losses. In December 2019 a receiver was appointed by a creditor under powers in a loan agreement, which gave a floating charge. A resolution to wind up the company voluntarily was passed on 10 January 2021, when the liquidator was appointed.

You were subsequently appointed to audit the liquidation and receivership accounts mainly the receiver's and liquidators' statements of accounts.

You have discovered that:

- 1. Assets were sold at below market value through an appointed auctioneer. The auction firm belongs to the wife of one of the directors of Nyama Safi Company.
- 2. A year ago, some of the assets, mainly Mercedes Benz and Pajero cars, were sold to the directors at net book values, which were much below the realizable market values.

**Required:**

- i) State your audit responsibilities in the audit of liquidation and receivership. (5 marks)
- ii) Indicate the action you would take to verify the values of the assets in the cases above (5 marks)

**QUESTION TWO ( 20 MARKS)**

The International Auditing Practices Committee requires that doubts about the going concern presumption be detected and adequately disclosed in the financial statements and auditors' reports.

**Required:**

- a) Explain the term "going concern" in relation to the preparation of financial statement. (4 marks)
- b) Describe the audit procedures the auditor should undertake in order to obtain sufficient audit evidence to be able to form an opinion on the going concern status of the company. (6 marks)
- c) List six factors which might cast doubt on the going concern status of a company. (6 marks)
- d) Discuss briefly how the present responsibilities of the auditor regarding the going concern status of company could be extended. (4 marks)

### **QUESTION THREE (20 MARKS)**

- a) Corporate governance has become an issue of worldwide importance. In furtherance to corporate governance, audit committees have been established by various companies.

**Required:**

Explain six ways in which the establishment of an audit committee would assist in improving the effectiveness of external audit work. (6 marks)

- b) The ban on advertising of accountancy services in Kenya is not sustainable. Discuss. (10 marks)
- c) The auditors have a legal duty to their clients. This legal duty appears to have, of late, been extended to cover third parties not in direct contractual relationship with the auditors. State specific actions an auditor or an audit firm should take to minimise liability deriving from audit risk. (4 marks)

### **QUESTION FOUR ( 20 MARKS)**

In the past, the accountancy profession has been criticised for its role in monitoring and reporting potential corporate failure. Radical reforms have been called for in the way the accountancy profession is regulated. There have been calls for legislation in the following areas:

1. Auditing standards:  
Auditing standards should be set and enforced independent of the accounting profession.
2. Fraud:  
Auditing firms should have a duty to detect and report fraud.
3. Non-audit services:  
Auditors should not provide their clients with non-auditing services.
4. Duration of auditor's appointment:  
The appointment of auditors should be for a given period.

**Required:**

- a) Describe the current regulatory and professional requirements relating to each of the main issues listed above. (12 marks)
- b) With reference to current regulations in the above areas, discuss the reasons why the accountancy profession has been criticised. (8 marks)

### **QUESTION FIVE (20 MARKS)**

There is a growing demand in both the public and private sectors for professional accountants to provide assurance on a variety of subject matters by expressing a conclusion regarding the quality or context of the subject matter.

**Required:**

- a) Identify the five key elements of an assurance engagement. (5 marks)
- b) Explain the engagement risks that face a professional accountant who accepts an assurance engagement. (4 marks)
- c) Explain why an absolute level of assurance may not be given and the circumstances in which a reasonable assurance can be given. (5 marks)
- d) Identify and explain the potential threats to the independence of an accounting firm involved in assurance engagements. (6 marks)