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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 13th August, 2024
Time: 11.30am – 1.30pm

KAC 2401 AUDITING AND INVESTIGATIONS

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) The partner in charge of your audit firm has asked your advice on frauds which have been detected in recent audits.

The audited financial statements of a client, Lam Trading Ltd., were approved by shareholders at the Annual General Meeting on 3 June 2022. On 7 June 2022 the managing director of Lam Trading discovered a petty cash fraud by the cashier. Investigation of this fraud has revealed that it has been carried over a period of one year. It involved the cashier making out, signing and claiming petty cash expenses which were charged to motor vehicle expenses. No receipts were attached to the petty cash vouchers. The managing director signs all cheques for reimbursing the petty cash float. Lam Trading Ltd. has sales of about Sh.160 million and the profit before tax is about Sh.12 million. The accountant has prepared the draft financial statements for audit.

The partner in charge of the audit decided that no audit work should be carried out on petty cash. He considered petty cash expenditure was small, so the risks of a material error or fraud was small.

Required:

- i) Briefly describe the auditor's responsibilities for detecting fraud and error in financial statements **(3 marks)**
- ii) If the fraud amounted to Sh.400,000, advise on being negligent as an audit firm. **(3 marks)**
- iii) Advise on materiality status if the fraud amounted to Sh.1,600,000. **(3 marks)**
- b) The audit of directors' remuneration at Wick Enterprises Ltd., a limited company has confirmed that the managing director's salary is Sh.18 million per annum and that he is the highest paid director. However, a junior member of the audit team asked you to look at some purchase invoices paid by the company.

Your investigations have revealed that the managing director has had work amounting to Sh.8 million carried out in his home, which has been paid by Wick Enterprises Ltd. The managing director has authorized payment of these invoices and there is no record of authorization of this work in board minutes. The managing director has refused to include the Sh. 8 million in his remuneration for the year, and to charge the financial statements. If you insist on qualifying your audit report on this matter, the managing director says he will get a new firm to audit the current year's financial statements. The company's profit before tax for the year is Sh.640 million. Assuming the managing director refuses to amend the financial statements, you are required to:

- i) Consider whether the undisclosed remuneration is a material item in the financial statements (3 marks)
- ii) Describe the matters you will consider and the action you will take:
 - To avoid replaced auditor, and
 - If you are replaced as auditor, assuming the managing director owns 60% of the issued shares of Wick Enterprises Ltd. (4 marks)
- iii) Describe the matters you will consider and the action you will take to avoid being replaced as auditor assuming Wick Enterprises Ltd. is a listed company with an audit committee, and the managing director owns less than 1% of the issued share. (4 marks)
- iv) The managing director did work amounting to Kshs Million. You are required to suggest proper tests of control in regard to this work. (2 Marks)
- v) Explain the importance of internal controls on payments in the organization (8 marks)

QUESTION TWO (20 MARKS)

You are an audit senior in a firm of practicing accountants and your manager has gone out for an urgent meeting with a partner. Mr. Charo, a manager with Charo and Company, a wholesale business has come to your office with a request that your firm becomes their auditors.

Required:

- a) Describe to Mr. Charo the various factors your firm would consider before accepting the appointment. (10 marks)
- b) Explain circumstances that would disqualify an accounting firm under the provisions of the Companies Act to become auditors. (10 marks)

QUESTION THREE (20 MARKS)

- a) The cashier of a firm who also acts a bookkeeper has been suspected of dishonesty. The books have not been audited for the last nine months. You have been asked to investigate the records to establish whether the cashier has committed a fraud.

Required:

Outline how you would proceed with the investigation. (10 marks)

- b) An expert is a person or entity having specialized knowledge other Finance and Accounting.

Required;

Describe five factors external Auditor will have to consider before relying on the work of an expert. (10 marks)

QUESTION FOUR (20 MARKS)

It has often been said that the auditors' report is the formal result of all his efforts. This being the case, it is very important that the reader well understands the meaning of the Audit Report, particularly where the auditor wishes to qualify his opinion on the financial statements.

Required:

- a) Under statutory provision, describe Three main contents of the auditors' report? (6 marks)
- b) Explain four ways in which the international standards on auditing attempt to ensure that the report of the auditors is clearly understood. (8 marks)
- c) Describe clearly any three circumstances in which an adverse opinion and a disclaimer of opinion would be appropriate and give two examples, one each, to illustrate your answer. (A full audit opinion is not required). (6 marks)

QUESTION FIVE(20 MARKS)

Printa Limited is a large printing company, which has an on-line computer accounting system. The system is based around a central main frame computer, with terminals serving individual departments. As part of the interim audit work, you have been asked to carry out a preliminary evaluation of ;

- The integrity of the data base as far as it is relevant to your audit and,
- The effectiveness of the computer controls over sales and debtors.

Required:

- a) Describe five controls, which you would expect to be in operation in order to maintain integrity of the database. (10 marks)
- b) Set out any five aspects, which you would raise, in your preliminary evaluation of controls over sales and debtors. (10 marks)