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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
UNIVERSITY EXAMINATIONS, 2022/2023 ACADEMIC YEAR  
END OF SEMESTER EXAMINATIONS  
FOR THE DEGREE OF BACHELOR OF EDUCATION (ARTS)  
**KBA 2432-AUDITING**

Date: 15<sup>th</sup> December 2022  
Time: 8.30am-10.30am

**INSTRUCTION TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

Magari Car Bazaar is owned and managed by two brothers with equal shareholdings. The company specializes in the sale of expensive motor vehicles. Annual revenue is in the region of Ksh. 140,000,000 and the company requires an audit under local legislation. About 1,000 cars are sold each year, with an average value of Ksh. 280,000, although the range of values is from Ksh. 260,000 to Ksh. 320,000. Invoices are completed manually with one director signing all invoices to confirm the sales value is correct. All accounting and financial statement preparation is carried out by the directors. A recent expansion of the company's showroom was financed by a bank loan, repayable over the next five years. The audit manager is starting to plan the audit of Magari Car Bazaar. The audit senior and audit junior assigned to the audit are helping the manager as a training exercise. Comments are being made on the need of internal control systems to reduce errors and fraud. Audit procedures are needed to ensure that the managing director has signed them and then to trace details into the sales day book and sales ledger. 'We should check all invoices' suggests the audit manager. 'How about selecting a sample using statistical sampling techniques?' adds the audit senior. 'Why waste time obtaining a sample?' asks the audit junior. He adds, 'Taking a random sample of invoices by reviewing the invoice file and manually choosing a few important invoices will be much quicker.'

a) **Required:**

- i. Internal control systems consist of various elements that when implemented well, help achieve operational efficiency. Outline two components of an effective internal control system. (4 marks)
  - ii. The auditing process will involve the examination and verification of actual financial transactions and their source documents. Highlight examples of accounting records normally relied upon as audit evidence. (5 marks)
  - iii. Explain three advantages of auditing. (6 marks)
  - iv. The Institute of Certified Public Accountants of Kenya has outlined several principles that the audit senior and audit junior should practice and uphold in the course of their duties to give credibility to their reports. Describe three of these principles. (6 marks)
- b) Identify two objectives of the audit committee. (4 marks)
- c) Highlight five principles of corporate governance. (5 marks)

**QUESTION TWO (20 MARKS)**

- a) An auditor is expected to give their honest opinion on whether an organization's financial records reflect a true and fair view of its affairs. He is therefore expected to exercise his duties with utmost diligence. As such, discuss the duties of the auditor. (10 marks)
- b) An auditor has a responsibility of being professional in their duties and should also practice ethical behavior. However, there are instances when the auditor's actions are considered unethical and unprofessional. Describe instances when an auditor's conduct is considered unprofessional. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) The internal audit function is increasingly being adopted by more firms in a bid to achieve organizational objectives. Explain the factors necessitating the growth of internal audit. (6 marks)
- b) Using a comparison table, elaborate the differences between internal auditing and statutory auditing functions of a firm. (8 marks)
- c) Describe three limitations of an internal audit. (6 marks)

**QUESTION FOUR (20 MARKS)**

- a) Audited financial statements are relied upon differently by a firm's various stakeholders depending on the prevailing relationship. As such, describe the users of audited reports and their interest in these reports. (8 marks)
- b) Explain any two types of audits that an organization can undertake. (4 marks)
- c) Section 162 of the Companies Act clearly outlines the rights of an auditor that allow them to perform their duties efficiently and effectively. Discuss the rights of auditors according to this Act. (8 marks)

**QUESTION FIVE (20 MARKS)**

- a) Internal Controls are the policies and procedures put in place by a company's management with the aim of achieving its specific objectives. Describe any five internal controls that an institution like KWUST would adopt. (10 marks)
- b) The audit committee is an integral part of an organization in ensuring that audit objectives are met. Explain five functions of an audit committee. (10 marks)