

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN  
FINANCE**

**MBAD 814: AUDITING**

**STREAMS: MBAD  
HOURS**

**TIME: 2**

**DAY/DATE: THURSDAY 07/10/2021**

**11.30 A.M – 1.30 P.M.**

**INSTRUCTIONS:**

- **Answer question ONE and any other THREE questions.**
- **Do NOT write anything on the question paper.**

**QUESTION ONE**

- (a) Discuss the factors that may limit or influence the External Auditor in deciding on the extent to which he/she may rely on the work of the internal audit department. (10 marks)
- (b) Tharaka Nithi University of Science and Technology, is a public institution in Kenya, you have been hired as a new Auditor for the year 2020/2021 financial year. As you are appointed the management has raised a red flag of poor procurement procedures where there are at times no purchases made but fraudulently there are persons claiming payments fraudulently as creditors. In financial 2020 a case of payment for a tender of construction of a laboratory building is said to have been done not procedurally, the cost paid was overstated hence all this matters are required to be audited. As a new auditor you are required to:
- (i) Draft an engagement letter for your audit position. (8 marks)
- (ii) Briefly explain to the management on measures to put in place or characteristics to establish an effective internal procurement department to avoid the above frauds. (8 marks)
- (iii) Explain the procedures of verifying the purchased inventory. (7 marks)

- (iv) Describe the process of carrying out the audit of the tender procurement of laboratory construction and payments thereof made. (7 marks)

**QUESTION TWO**

- (a) Matopeni Manufacturing PLC, owners have asked you to assist them in their company which sale its products both on credit and in cash to overcome the problem of “Teeming and Lading.” Explain the measures you would recommend to prevent the vice. (10 marks)

- (b) An Auditor is NOT liable to the third party. Discuss. (10 marks)

**QUESTION THREE**

You as external audit staff of Mackenzie Auditor firm, you have been assigned the duty of auditing the true and fair view of the following balances as indicated in the financial statement at the end of the year. Describe how you will carry out the audit process.

- (a) Motor vehicles of the company. (7 marks)  
(b) Patent rights and Trademarks. (7 marks)  
(c) Good will. (6 marks)

**QUESTION FOUR**

(a) You are working at M'tomkindia Consulting Firm, which deals with auditing, investigation and investments advisory matters for their clients. Chuka University has consulted your firm with an intension to carry out investigation and advise them on intended purchase of Hill Side Hotel in Ndagani. The university wants to know the viability of this hotel business and its future progress before acquiring them. You have been assigned the duty to fulfil client needs.

- (i) Distinguish between auditing and investigation. (4 marks)
- (ii) Describe how and procedures you would do to investigate the matters for client, also disclose main issues you would include in your report client. (10 marks)

- (b) Explain the various provisions in audit practices that gives an Auditor independence in his duties of work. (6 marks)

**QUESTION FIVE**

(a) Explain the general conditions that can make the auditor to consider some evidence as reliable in making his opinions over audited cases. (6 marks)

(b) Describe the standard assertions that are recommended for use by an Auditor in obtaining audit evidence. (14 marks)

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