

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN ACCOUNTING

DIAC 0227: PRINCIPLES OF AUDITING

STREAMS: DIAC (Y1S2)

TIME: 2 HOURS

DAY/DATE: TUESDAY 05/12/2017

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

- (a) Chuka general supplies ltd was established in January 2013, to sell and distribute household products. The directors are unaware as to their responsibilities and nature of their relationship with external auditors.

Required:

- (i) Explain to the directors of Chuka General supplies ltd why there is need for an external audit. [5 marks]
- (ii) Explain the responsibilities of the directors in relation to the accounting function of the Chuka Generalsupplies business. [5 marks]
- (b) (i) Explain the differences between accounting and auditing indicating the purpose of each. [5 marks]
- (ii) Briefly explain any 5 types of audits. [5 marks]
- (c) You are approached by Mr. Munene the managing director of Leo ltd a company that you are the auditor. He feels that there is no need to carry out an interim audit at Leo ltd during the audit of the year ended 31st Dec, 2002. He stated that an interim audit is only a way of increasing audit fees and has no value to his company.
- (i) Explain any 5 benefits of interim audit to Leo ltd company. [5 marks]
- (ii) State briefly any 5 activities carried out at the final audit that could be carried out at the interim audit. [5 marks]

QUESTION TWO

- (a) Discuss the rights and duties of the auditor under the companies Act. [10 marks]
- (b) (i) Discuss how the auditor of a public company may be appointed under the cap 486. [5 marks]
- (ii) Briefly state any 5 purposes of the management letter written by the auditor to the management of a company. [5 marks]

QUESTION THREE

- (a) Discuss briefly the 5 components of a firms internal control system. [10 marks]
- (b) One of the responsibilities of the directors of a company is to establish strong controls to safeguard the assets. Briefly explain the control objectives of internal controls an assets. [10 marks]

QUESTION FOUR

- (a) Briefly describe the duties of internal audit staff of a given business. [5 marks]
- (b) Discuss briefly the similarities and differences between the responsibility of internal and external auditors. [5 marks]
- (c) Explain the auditors planning process when planning for an audit of a new client. [5 marks]
- (d) Explain briefly why auditors often write to the firms banks and state the matters you would expect banks to confirm. [5 marks]

QUESTION FIVE

- (a) Briefly explain what is the meaning of audit evidence. [5 marks]
 - (b) State any 5 factors influencing the auditor's judgment as to what is sufficient audit evidence. [5 marks]
 - (c) Briefly discuss the purpose of the auditor's report. [5 marks]
 - (d) State 4 types of audit opinions, which the auditor may express in his report indicating the circumstances under which each can be issued. [5 marks]
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