

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN

DIAC 0227: PRINCIPLES OF AUDITING

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 12/04/2018

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- **Answer question 1 and any other two.**

QUESTION ONE

- (a) Outline the objectives of an audit. (3 marks)
- (b) Explain any two classifications of audit. (4 marks)
- (c) Explain the following terms.
- (i) Audit planning (2 marks)
 - (ii) Materiality (2 marks)
 - (iii) Audit sampling (2 marks)
- (d) Explain the three types of audit risk. (6 marks)
- (e) Outline three characteristics of an audit evidence. (3 marks)
- (f) Before an auditor begins any part of his audit work, he must assess the strength of the internal control system. Discuss. (4 marks)
- (g) Explain the terms
- (i) Qualified opinion (2 marks)
 - (ii) Vouching (2 marks)

QUESTION TWO

- (a) Outline the differences between an internal audit and statutory audit. (8 marks)
- (b) Explain the stages involved in audit sampling. (10 marks)
- (c) Explain the term ‘fraud’ as used in auditing. (2 marks)

QUESTION THREE

- (a) Explain how internal control system (ICS) is used to prevent and detect frauds. (10 marks)
- (b) Reliability of audit evidence refers to the credibility of the source of the evidence. State 5 factors that influence the reliability of audit-evidence according to ISA 500. (10 marks)

QUESTION FOUR

- (a) Outline five factors that are responsible for the growth of internal audit function in business firms. (5 marks)
 - (b) Explain the term substantive testing and outline the areas that need substantive testing. (5 marks)
 - (c) Outline the actions taken by the auditor when weaknesses are identified in the ICS. (6 marks)
 - (d) Outline situations where the auditor may require an advice of an expert. (4 marks)
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