

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA & EMBU

**EXAMINATION FOR THE AWARD OF
DIPLOMA IN ACCOUNTING**

DIAC 0227: PRINCIPLES OF AUDITING

STREAMS: DIAC

TIME: 2 HOURS

DAY/DATE: THURSDAY 09/08/2018

11.30 AM – 1.30 PM

INSTRUCTIONS:

Answer Question One and any other Two

- (a) (i) Briefly explain the meaning of the term “audit” [2 marks]
- (ii) What are the objectives of an audit according to the Companies Act. [3 marks]
- (b) Explain five advantages to a company of having its accounts audited. [10 marks]
- (c) List five limitations of an audit. [5 marks]
- (d) Explain the meaning of the ‘audit evidence’. [4 marks]
- (e) Write a brief explanatory notes on the following terms in relation to audit evidence:
- (i) Relevance [2 marks]
- (ii) Reliability [2 marks]
- (iii) Sufficiency [2 marks]

Question Two

The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understating of the audit.

Required:

- (a) Explain four benefits that an auditor would obtain from working papers that satisfy the above requirement. [8 marks]
- (b) Explain four items of information you would expect to be contained in a permanent audit file. [8 marks]
- (c) List any four advantages of standardized audit working papers. [4 marks]

Question Three

- (a) Give a definition of an “internal control system”. [4 marks]
- (b) Describe any six internal control procedures you would recommend to the owner of a medium size wholesale business to facilitate prevention and detection of errors and frauds. [12 marks]
- (c) In the context of ISA 240 (The Auditor’s Responsibility to consider Fraud and Error in, an Audit of Financial Statements): Define:-
 - (i) Fraud [2 marks]
 - (ii) Error [2 marks]

Question Four

- (a) Write brief explanation notes on each of the following terms:
 - (i) Audit risk [2 marks]
 - (ii) Inherent risk [2 marks]
 - (iii) Control risk [2 marks]
 - (iv) Detection risk [2 marks]
 - (b) Explain any six specific actions that an individual auditor or audit firm take to minimize liability arising from audit risk? [12 marks]
-