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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**FOR THE DIPLOMA IN ACCOUNTING**  
**DAC 1504 - AUDITING**

Date: 11<sup>th</sup> April, 2022  
Time: 11.30 am – 1.30pm

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) CHAI Kenya Ltd deals in export tea and coffee to foreign markets. The Directors are unsure as to their responsibilities and the nature of their relationship with the external auditors. The audit partner has asked you to visit the client and explain to the directors, the fundamental aspects of the accountability of the directors and their relationship with the auditor.  
Explain to the directors of CHAI Kenya Ltd.
- i) The importance of an audit. (4 Marks)
  - ii) Procedures for the appointment of an auditor of a public company under the Companies Act. (4 Marks)
  - iii) Directors responsibilities in relation to the accounting function of the Company. (6Marks)
  - iv) Auditors' statutory responsibilities in relation to the audit of the company's financial statements. (6Marks)
- b) Discuss factors for growth of the Internal Audit Function. (6Marks)
- c) Describe the factors that would lead to the qualification of an audit Report. (4 Marks)

**QUESTION TWO (20 MARKS)**

- a) ISA 230 Audit Documentation (Revised) establishes standards and provides guidance regarding Documentation in the context of the audit of financial statements. Discuss the need for good audit working papers. (6Marks)
- b) Distinguish a permanent audit file and a current audit file. (8 Marks)
- c) Enumerate the advantages of standardized working papers. (6Marks)

**QUESTION THREE (20 MARKS)**

- a) Corporate governance concerns the way a company is operated and directed. The Capital Markets Authority (CMA) developed guidelines for good practices by public limited companies in Kenya in response to the grave importance of governance issues. Discuss principles of good corporate governance. (8Marks)
- b) Briefly explain the relationship between the audit committee and the internal audit function. (4 Marks)
- c) Describe the Functions of an audit committee. (8Marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss FOUR methods of obtaining audit evidence. (8 Marks)
- b) Explain controls to be instituted over sales and debtors to prevent the occurrence fraud and error.(8 Marks)
- c) Fraud and error present risks to an entity. Both internal and external auditors are required to deal with risks to the entity. Explain ways in which the internal audit function helps an entity deal with the risk of fraud and error. (4 Marks)

**QUESTION FIVE (20 MARKS)**

Audit sampling is a technique for drawing conclusions about the characteristics of a population by testing a sample drawn there from. Internal and external auditors use it for both tests of controls, and substantive testing. Describe the following in respect to Audit sampling.

- i) Judgment sampling and statistical sampling (6 Marks)
- ii) A representative sample (4 Marks)
- iii) Tolerable error (4 Marks)
- iv) Two different methods of selecting a representative sample (6 Marks)