



Kasarani Campus
Off Thika Road
Tel.2042692/3
P.O Box 49274,00100
NAIROBI
Westland Campus
Pamstech House
Woodvale Grove
Tel. 4442212

KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
DIPLOMA IN ACCOUNTING
DAC 1504-AUDITING

Date: 28th July 2022
Time: 2.30pm-4.30pm

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE COMPULSORY (30 MARKS)

Pharma and Lax Ltd Companies

Auditing is the process of examining the financial statements of an organization, correcting errors, and eliminating possible cases of fraud. The auditing process is a core activity that enables a company to control its internal activities in an efficient manner. Through auditing, most companies are able to achieve their business goals and objectives (Wang & Tuttle 2009). Several critics have risen concerning the auditing process. While some businesspersons find it worthwhile to invest in the auditing exercise, some find the auditing exercise unworthy.

Pharma Ltd Company; a pharmaceutical manufacturing company that was formed because of the splitting of the parent company, Lax Ltd. Pharma Ltd is the smaller of the two newly formed companies and Tina, the previous sales manager of the parent company is the Managing Director.

Tina does not find it worthwhile for the small company to carry out yearend audits. According to her, yearend auditing is an unnecessary exercise that will only increase the expenses of the company without necessarily adding value to the business.

- Outline the advantages that Pharma and Lax will have when the yearend audits are performed. (5 marks)
- Outline the reasons why Tina is against auditing of a business (5 marks)
- Discuss the stages in auditing that an auditor has to follow while looking at the books of Pharma and Lax (6 marks)
- After the audit process, the auditor is required to provide both Pharma and Lax with a report. Discuss the contents of the auditor's report (6 marks)
- Using the conceptual framework approach discuss the threats to compliance with the fundamental auditing principles that the auditor may be faced with. (6 marks)
- Highlight some of the safeguards to the threats in (e) above (2 marks)

QUESTION TWO (20 MARKS)

- Examine the objectives of an audit according to the Companies Act? (10 marks)
- Discuss the factors that might affect the extent of use of analytical review procedures (10 marks)

QUESTION THREE (20 MARKS)

- a) Discuss the types of working papers used by an auditor. (5 marks)
- b) Evaluate the challenges of obtaining the audit evidence (5 marks)
- c) Explain various methods used by auditors to obtain audit evidence (10 marks)

QUESTION FOUR (20 MARKS)

- a) Analyse the potential users of audited financial statements (6 marks)
- b) What are the specific needs of the potential users of audited financial statement you have identified in (a) above? (6 marks)
- c) Discuss the main professional values and ethics that guide auditors to practice (8 marks)

QUESTION FIVE (20 MARKS)

- a) Explain three categories of fraud that could be investigated by a forensic accountant (10 marks)
- b) Explain the stages of forensic investigation process (10 marks)