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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FOURTH YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 13<sup>th</sup> December, 2023  
Time: 11.30am –1.30pm

**KAC 401 - AUDIT AND INVESTIGATION**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

Your firm is the auditor of Global foods ltd, which supplies a wide range of imported foods to supermarkets and stores from two large depots in Nairobi. The company employs 300 people and has a turnover of Sh3 billion. The accounts department uses a maintenance computer for all the accounting records except for stock control, which is maintained manually on a card system at each depot. Deliveries are made to customers by the company's fleet of lorries and vans. After ascertaining and recording the system of internal control you have decided that you wish to place reliance on the controls in many areas. The results of your substantive tests on the system of controls on purchases and stocks reveal that:

1. Out of 100 purchase invoices selected for inspection, 2 could not be found and 2 were not initialed as checked and approved for payment.
2. Out of 120 stock cards inspected, 4 contained an instance where the delivered quantity had been altered by a significant amount.
3. One supplier is regularly paid before supplies are delivered on the basis of pro forma invoices, which are processed through the purchase ledger system on receipt so as to initiate the necessary payments.

No other exceptions were noted.

**Required:**

- a) Specify what further procedures you would adopt in order to be able to reach a conclusion on whether the company's system of control can be relied upon. (6 marks)
- b) Describe what factors you would consider in reaching your conclusion. (6 mark)
- c) The Auditor Senior has asked you to describe to the Audit Trainees the factors the Audit team will have to consider before relying on.
  - i) Internal Control System (5 marks)
  - ii) The work of Internal Audit Department (5 marks)
- c) State the reasons from the scenario above why it will be necessary to write a report to management, in writing specifying significant weakness in internal control systems. (letter of internal weaknesses). (8 marks)

## **QUESTION TWO (20 MARKS)**

The auditing standard on subsequent events provide the basic principles and procedures as to the auditor's responsibilities and deal with:

- i) Dating the auditor's report
- ii) Audit procedures
- iii) Events after the date of the audit report.

Required;

- a) In the context of subsequent events, what is the significance of the data of the auditor's report? (3 marks)
- b) Outline the audit procedures considered necessary between the balance sheet date and the date of the auditor's report. (8 marks)
- c) Summarise the appropriate actions of the auditor regarding events after the date of the audit report. (9 marks)

## **QUESTION THREE (20 MARKS)**

- a) List and briefly explain four objectives of an audit of financial statements. (8 marks)
- b) Outline and explain four ways in which the objectives of an audit of financial statements have changed over the years. (8 marks)
- c) It is often argued that: "The external auditor adds credibility to the financial statements produced by a business entity." Briefly comment on this statement. (4 marks)

## **QUESTION FOUR (20 MARKS)**

- a) With reference to International Standard on Auditing 550 (Related Parties), discuss the responsibility of an auditor with regard to related party transactions. (8 marks)
- b) You are a partner in ABC Associates, a firm of Certified Public Accountants (CPAs) specializing in the audit of group accounts. One of your clients, Excel Ltd., is the parent company of a number of subsidiary companies. Some of these subsidiary companies are audited by other audit firms. Your firm is in the process of determining the extent to which the work of these subsidiary company auditors can be relied upon in the audit of the accounts of the parent company.

Required:

- i) Explain the factors you would consider in deciding on the extent to which you could rely on the work of the auditor of a subsidiary company. Your answer should include a consideration of the size of the subsidiary. (6 marks)
- ii) Analyse the matters you would consider in deciding whether you should qualify your audit report on the parent company's accounts given that the audit report on the accounts of a subsidiary company is qualified. (6 marks)

**QUESTION FIVE( 20 MARKS)**

During the course of an audit, the auditor attempts to obtain sufficiency and appropriate audit evidence to provide the satisfaction that the financial records are completed and accurate. One of the ways that the auditor obtains satisfaction is to select representative samples of transactions and balances for detailed testing, such samples being made using either statistical or non-statistical methods.

Required:

- a) Explain sufficiency, appropriate audit evidence and their significance to the Auditor .  
(4 marks)
- b) Describe the main factors which influence the auditor in determining the size of the sample he will use for his detailed testing.  
(10 marks)
- c) Describe three areas where the judgment will be exercised by the auditor when using statistical sampling.  
(6 marks)