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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FOURTH YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF EDUCATION(ARTS)
KBA 2432-AUDITING

Date: 6th December 2023

Time: 8:30am-10.30am

INSTRUCTIONS TO CANDIDATES:

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

AUDIT PLANNING AND PROCEDURES

Leiwa Luxury Rentals Ltd. is owned and managed by two brothers with equal shareholding. The company specializes in renting and leasing of luxury vehicles. Annual revenue is approximately Ksh. 150,000,000 and the company is required to audit their books for compliance purposes. About 15,000 cars are leased out each year, with an average value of Ksh. 10,000, although the range of values is from Ksh. 5,000 to Ksh. 25,000. Invoices are completed manually with one director signing all invoices to confirm the sales value is correct. All accounting and financial statement preparation is carried out by the directors. A recent expansion of the company's yard was financed by a bank loan, repayable over the next five years.

The audit manager is starting to plan the audit of Leiwa Luxury Rentals for the current year due to end December 31st. The audit senior and audit junior assigned to the audit are helping the manager as a training exercise. Comments are being made on the need for internal control systems to reduce errors and fraud. Audit procedures are needed to ensure that the managing director has signed them and then to trace details into the sales day book and sales ledger. 'We should check all invoices' suggests the audit manager. 'How about selecting a sample using statistical sampling techniques?' adds the audit senior. 'Why waste time obtaining a sample?' asks the audit junior. He adds, 'Taking a random sample of invoices by reviewing the invoice file and manually choosing a few important invoices will be much quicker.'

Required:

- a)
- i) According to the excerpt above, it is clear that Leiwa's internal control systems are weak. Identify actions that can be taken to strengthen a weak internal control system. (6 marks)
 - ii) Highlight three advantages of auditing that Leiwa Luxury would benefit from. (3 marks)
 - iii) Internal control systems consist of various elements that when implemented well, help achieve operational efficiency. Describe three control procedures of an effective internal control system that Leiwa can implement at their premises. (3 marks)
 - iv) The auditing process will involve the examination and verification of actual financial transactions and their source documents. Highlight examples of accounting records normally used as audit evidence. (6 marks)
- b) Risk assessment is one of the main components of an accounting and internal control system and should therefore be taken seriously. As such, describe the constituent risk that comprise audit risk. (6 marks)
- c) Using appropriate examples, describe the following terms in the context of the Leiwa's case and as used in auditing;
- i) Assertion (3 marks)
 - ii) Materiality (3 marks)

QUESTION TWO (20 MARKS)

- a) The internal audit function is increasingly being adopted by more firms in a bid to achieve organizational objectives. Discuss the factors necessitating the growth of internal audit. (6 marks)
- b) An error is an unintentional mistake in presenting the financial information which can occur at any time during processing and recording of transactions. Discuss any three types of errors. (6 marks)
- c) An auditor has a responsibility of being professional in their duties and should also practice ethical behavior. However, there are instances when the auditor's actions are considered unethical and unprofessional. Discuss instances when an auditor's conduct is unprofessional. (8 marks)

QUESTION THREE (20 MARKS)

- a) Discuss the various types of audits that an organization can undertake to enhance transparency, accountability and efficiency. (8 marks)
- b) The audit committee plays an integral part in an organisation's board. Identify and explain three objectives of the audit committee. (6 marks)
- c) Using a comparison table, explain the differences between internal auditing and external auditing functions of a firm. (6 marks)

QUESTION FOUR (20 MARKS)

- a) Audited financial statements are relied upon differently by a firm's various stakeholders depending on the prevailing relationship. As such, describe the users of audited reports and their interest in these reports. (6 marks)
- b) Highlight three limitations of an internal audit. (6 marks)
- c) Section 162 of the Companies Act clearly outlines the rights of an auditor that allow them to perform their duties efficiently and effectively. Describe the rights of auditors according to this Act. (8 marks)

QUESTION FIVE (20 MARKS)

- a) The Institute of Certified Public Accountants of Kenya has outlined several principles that the audit senior and audit junior should practice and uphold in the course of their duties to give credibility to their reports. Discuss these principles. (10 marks)
- b) An auditor is expected to give their honest opinion on whether an organization's financial records reflect a true and fair view of its affairs. He is therefore expected to exercise his duties with utmost diligence. As such, discuss the duties of the auditor. (10 marks)