



PIONEER INTERNATIONAL UNIVERSITY

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UNIVERSITY EXAMINATIONS

ACADEMIC YEAR: 2021/2022

SEMESTER: SEP-DEC

UNIT CODE: ACCT 2111

UNIT NAME: PRINCIPLES OF AUDITING

DATE: DEC 2021

TIME: 2 HOURS

Instructions: Answer question ONE and any other TWO questions.

QUESTION ONE (30 Marks)

- a) Most users of financial statements believe that the auditor prepares the financial statements and should therefore be in a position to explain the company's performance. In addition, the users of financial statements expects that the auditor should detect and prevent errors and frauds as a duty, while actually it is not his duty but of the directors. Discuss this problem and highlight the possible means of reducing the problem (10 marks)
- b) Norah Apiyo is a Certified Public Auditor (CPA) working with Apiyo and Koech LLP. Their audit firm has secured an audit assignment with Lameck Engineering Company that deals with imports of heavy machinery and construction works. The firm's shareholders have tasked her with audit and valuation of the company's machinery, plant, property and equipment that have always been undervalued by the management. Norah being the auditor does not have experience on valuation of assets and engineering technology. Explain how Norah should solve this problem and the factors she should put into consideration to ensure she gives a true and fair view (10 marks)
- c) Nyaga a Man United supporter invested in BC Ltd and relied on the company's audit report, which had been audited by CPA Ian Njoroge. Under the report, CPA Njoroge had indicated that the company's financial statements were showing a true and fair and were prepared based on the laid down accounting standards. However, this was not the case and Nyaga suffered a financial loss as a direct consequence and was able to proof that the auditor breached the duty of care by acting carelessly. Identify the specific liability that CPA Njoroge should be held accountable for and advise CPA Njoroge on how to minimize this liability in case of any future audit assignments (10 marks)

QUESTION TWO (20 Marks)

- a) There is desire on the part of professional bodies worldwide to ensure that members apply and observe professional standards. Thus, peer review has emerged as one of the techniques to ensure quality and to ensure auditors observe professional standards. Define the term peer review and discuss the objectives of peer review (8 marks)
- b) Analytical procedures are involved in evaluation of financial statements information by a study of relationships among financial and non-financial information. Essentially, the process of performing analytical procedures consists of four steps. Discuss the four analytical procedures steps (12 marks)

QUESTION THREE (20 Marks)

- a) A strong control environment i.e. one with tight budgetary control and an effective internal audit function can significantly complement specific control procedures. Define the term control environment and discuss the factors that influence the control environment (8 marks)
- b) Audit sampling is a key aspect of obtaining sufficient appropriate evidence. A sample must be chosen which enables the auditor to get the evidence he needs. Highlight the various sampling techniques that an auditor can use and factors which should be considered before adopting statistical sampling (12 marks)

QUESTION FOUR (20 Marks)

- a) The purpose of an audit is not to provide additional information but rather it is intended to provide the users of the accounts with assurance that the information provided/presented to them is reliable. Explain the need for an audit (8 marks)
- b) Once the auditor has gathered sufficient appropriate audit evidence on which to base his opinion, he is expected to put his findings on the true and fairness of the financial statements in a report. Highlight four types of audit opinion and explain the factor that limits an auditor's scope (12 marks)

QUESTION FIVE (20 Marks)

- a) Highlight the key differences between compliance and substantive test and explain when the auditor undertakes the two tests (8 marks)
- b) Stock comprises a significant portion of the company's assets and hence has a material effect on the presentation of the financial statements. Discuss the major problems encountered in auditing and verification of stock (12 marks)

IMPORTANT NOTICE !!!!!!!!!!!!!

The following are the possible consequences if found guilty of an Examination Offence:

- a) Expulsion from the University.**
- b) Academic Leave.**