



SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

DAC 306: PRINCIPLES OF AUDITING

DATE: 13TH APRIL, 2018

TIME: 1.30-3.30PM

INSTRUCTIONS: Answer question ONE and any other TWO

QUESTION ONE

a) Explain the following terms:

- i. Materiality; **(4 marks)**
- ii. The duty of confidentiality; **(3 marks)**
- iii. Quality Control. **(3 marks)**

- b) Audit planning process allows the audit senior to acquire adequate knowledge about the entity. This process ensure an effective control of audit work.

Required:

- a) Explain the auditor's planning process when planning for an audit of a new client. **(8 marks)**
- b) How does audit planning assist in the conduct of an audit? **(5 marks)**
- c) Explain the following controlling procedures in a well planned audit:
 - i. Direction and supervision of work. **(2 marks)**
 - ii. Review and co-ordinating of work. **(2 marks)**
 - iii. Quality controls. **(3 marks)**

QUESTION TWO

- a) Giving two examples in each case, briefly comment on the reliability of the following types of audit evidence:
- (i). Evidence originated from the auditor **(4 marks)**
 - (ii). Evidence originated from third parties **(4 marks)**
 - (iii). Evidence obtained from management **(4 marks)**
- b) Summarise the factors that an auditor should take into consideration when assessing the reliability of the work of an expert. **(8 marks)**

QUESTION THREE

- a) Do you believe that the auditors should be responsible to users other than the shareholders? Give reasons to support your answer. **(5 marks)**
- b) Does the auditor require a codified definition of “reasonable care and skill” or should this be left to professional judgment? Explain. **(5 marks)**
- c) Why should the auditor be unwilling to take full responsibility for the detection of fraud during the annual audit? Explain. **(5 marks)**
- d) Discuss the proposition that the ‘expectations gap’ has arisen because of the public’s ignorance and should therefore be resolved by the public themselves. **(5 marks)**

QUESTION FOUR

- a) “The auditor must not only be independent, but must be seen to be independent.” Briefly comment on this statement. **(4 marks)**
- b) Suggest how the independence of an auditor may be strengthened **(4 marks)**
- c) Explain the challenges that auditors face in the process of being independent. **(4 marks)**
- d) Outline the ways in which an auditor may be held criminally liable in the course of his audit duties. **(6 marks)**
- e) Briefly explain what is meant by “the auditor’s duty of due professional care.” **(2 marks)**

QUESTION FIVE

It has often been said that the auditors’ report is the formal result of all his efforts. This being the case, it is very important that the reader well understands the meaning of the Audit Report, particularly where the auditor wishes to qualify his opinion on the financial statements.

Required:

- a) Under statutory provision, what are the main contents of the auditors’ report? **(6 marks)**
- b) Explain how the international standards on auditing attempt to ensure that the report of the auditors is clearly understood. **(8 marks)**
- c) Describe clearly the circumstances in which an adverse opinion and a disclaimer of opinion would be appropriate and give two examples, one each, to illustrate your answer. (A full audit opinion is not required). **(6 marks)**