

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE OF
BACHELOR OF COMMERCE

BCOM 412: AUDITING II

STREAM:

TIME: 2 HRS

DAY: MONDAY [8.30-10.30 A.M]

DATE: 15/04/2024

THIS QUESTION PAPER CONSISTS OF FOUR (4) PAGES

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INSTRUCTIONS TO CANDIDATES:

- Answer Question One and any other three questions.
- The duration of this paper is three hours.

QUESTION ONE

a). The accountancy profession in Kenya is governed and regulated by the Institute of Certified Public Accountants of Kenya (ICPAK) which draws its mandate from the Accountants Act No. 15 of 2008 and the constitution of Kenya 2010.

Required:

- i). Enumerate six functions of the Institute. **(5 marks)**
- ii). Discuss the circumstances under which a member of the Institute shall be guilty of professional misconduct **(10marks)**

b). Before accepting other assurance engagements for audit clients, an auditor should consider the impact of the proposed engagement on the integrity and independence of the audit.

Required:

Explain four fundamental principles a professional accountant or the reporting auditor is required to comply with while carrying out such engagements **(8marks)**

c) Discuss the proposition that the ‘expectations gap’ has arisen because of the public’s ignorance and should therefore be resolved by the public themselves. **(6 marks)**

QUESTION TWO

Auditors may be liable to shareholders and other parties who may have relied on the financial statements upon which the auditors have expressed an opinion. This is because the auditors are generally taken as owing a “duty of care” those parties and they could be liable in the tort of negligence if they failed that duty. In this connection:



- (a) Describe the circumstances when an auditor may be liable for damages for material misstatements in published accounts on which has expressed an audit opinion and the circumstances when he may avoid liability. **(6 marks)**
- (b) Explain the persons who may make a successful legal claim against an auditor and state the basis a court of law would use to assess the value of damages. **(6 marks)**
- c). Describe four possible measures that auditing firms should take in order to avoid legal actions for negligence against them. **(8 marks)**

QUESTION THREE

- a). An internal control system is designed to provide reasonable assurance that all the control objectives are being achieved.

Required:

- i). Outline the purpose of an internal control system serve in an organization? **(4 marks)**
- ii). Identify and explain the three key elements of a good internal control system. **(6marks)**
- b). Explain five factors which would indicate to the auditor that the going concern assumption of the business entity he is auditing is threatened. **(10 marks)**

QUESTION FOUR

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

Required:

- i). Explain the auditor's planning process when planning for an audit of a new client. **(8 marks)**
- ii). How does audit planning assist in the conduct of an audit? **(4 marks)**



b). Inspection and monitoring of quality control by a firm of auditors involves both in-house and external procedures. The internal procedures include the post-audit review, sometimes known as a “cold review”. The external procedures are sometimes known as “external practice inspections” or “peer reviews”.

Required:

Explain the advantages and disadvantages of the “peer review”.

(8 marks)

