



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

JANUARY-APRIL 2024

SCHOOL OF BUSINESS

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DEPARTMENT OF ACCOUNTING AND FINANCE

BACHELOR OF COMMERCE

CAC 321: INTRODUCTION TO AUDITING

DATE: APRIL 2024

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Q1.

- a) You are a manager in the audit firm of Ebenezer partners and this is the first time you have worked with one of the firms established clients, Umoja Ltd. The main activity of Umoja Ltd is providing investment advice to individuals regarding saving for retirement, purchase of shares and bonds, and investing in tax efficient saving schemes. You have been asked to start the auditing planning for Umoja Ltd, by Mr. John a partner in Ebenezer partners. Mr. John has been the engagement partner for Umoja Ltd the previous 8 years and so has excellent knowledge of the client. Mr. John has informed you that he would his daughter Jean to be part of the audit team this year; Joan also informs you that Mr. Oluoch the audit senior received investment advice from Umoja Ltd during the year and intends to do the same next year. In an initial meeting with the finance director of Umoja Ltd you learn that the audit team will be entertained on a ballon flights. He director also states that the flee for taxation services this year should be based on a percentage of tax saved and trusts that your firm will accept a fixed fee for representing Umoja Ltd in a dispute regarding the amount of sales tax payable to tax authorities.

Required;

- a) Explain the ethical threats which may affect the auditor Umoja Ltd and for each ethical threat discuss how the effect of the threat can be mitigated. **(14 Marks)**
- b) Outline may Ebenzer partners should write a management letter to Mwema Ltd. **(10 Marks)**
- c) Explain why an auditor should be unwilling to take full responsibility for the detection of fraud during the annual audit. **(6 Marks)**

- Q2.** a) Briefly explain the purpose of an engagement letter and important matters which must be included in the letter. **(10 Marks)**
- b) Distinguish between internal controls and internal checks. **(4 Marks)**
- c) Explain the feature of a sound internal control system. **(6 Marks)**
- Q3.** a) Briefly explain how auditors are appointed. **(6 Marks)**
- b) An auditor should obtain “sufficiency appropriate evidence” in arriving at conclusion on which his opinion will be based. Discuss what you understand by this statement. **(14 Marks)**
- Q4.** a) Explain the functions performed by an internal audit department. **(4 Marks)**
- b) Distinguish between internal audit and external audit. **(6 Marks)**
- c) Explain the contents of working papers and the need for preparing good working papers. **(10 Marks)**

END