



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**SEPTEMBER – DECEMBER 2019 TRIMESTER**

**SCHOOL OF BUSINESS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CAC 321: INTRODUCTION TO AUDITING**

**Date: DECEMBER 2019**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and any other TWO Questions**

Q1. Ajo is a charity whose constitution requires that it raises funds for educational projects. These projects seek to educate children and support teachers in certain countries. Charities in the country from which Ajo operates have recently become subject to new audit and accounting regulations. Charity income consists of cash collections at fundraising events, telephone appeals and bequests (money left to the charity by deceased persons). The charity is small and the trustees do not consider the charity able to afford to employ a qualified accountant. The charity employs a part-time bookkeeper and relies on volunteers for fundraising. Your firm has been appointed as accountants and auditors to this charity because of the new regulations. Accounts have been prepared (but not audited) in the past by a volunteer who is a recently retired Certified Public Accountant (Kenya)

## **Required**

- a) Describe the risks associated with the audit of Ajo under the headings inherent risk, control risk and detection risk and explain the implications of these risks for overall audit risk.

**(10**

**marks)**

- b) Identify and discuss the audit tests to be performed on income and expenditure from Fundraising events.

**(10 marks)**

Note. In part (a) you may deal with inherent risk and control risk together. You are not required to deal with the detail of accounting for charities in either part of the question.

- c) An understanding of internal control systems assists the auditor in identifying potential misstatements and factors that affect the risks of material misstatement, and in designing the nature, timing and extent of further audit procedures.
- (i) Explain the two advantages and two limitations of internal control systems. **(4 marks)**
  - (ii) Briefly describe two alternative methods of documenting accounting and control systems **(2 Marks)**
- (d) Explain the purpose of an engagement letter and list its contents. **(4 Marks)**

- Q2. The objectivity of the external auditor may be threatened or appear to be threatened where:
- i. There is undue dependence on any audit client or group of clients.
  - ii. The firm, its partners or staff have any financial interest in an audit client.
  - iii. There are family or other close personal or business relationships between the firm, its partners or staff and the audit client.
  - iv. The firm provides other services to audit clients.

**Required:**

- a) For each of the four examples given above, explain why the objectivity of the external auditor may be threatened, or appear to be threatened, and why the threat is important **(4 Marks)**
- b) Describe requirements that reduce the threats to auditor objectivity for each of the four examples given above. **(4 Marks)**
- c) Outline and discuss the various audit opinions **(10 Marks)**
- d) Discuss two situations under which the Act requires auditors to qualify their report. **(2 Marks)**

Q3. Audit planning process allows the audit senior to acquire adequate knowledge about the entity. This process ensures an effective control and review of audit work.

**Required;**

- a) Explain the auditor's planning process when planning for an audit of a new client. **( 6 Marks)**
- b) How does audit planning assist in the conduct of an audit? **(5 Marks)**
- c) Explain your understanding of Peer Review and the role it plays in auditing **(5 Marks)**
- d) Discuss the difference between Permanent audit file and Current audit files and importance of documentation of audit work **( 4 Marks)**

Q4. ZPM is a listed limited liability company with a year end of 30 June. ZPM's main activity is selling home improvement or 'Do-It-Yourself' (DIY) products to the public. Products sold range from nails, paint and tools to doors and showers; some stores also sell garden tools and furniture. Products are purchased from approximately 200 different suppliers. ZPM has 103 stores in eight different countries.

ZPM has a well-staffed internal audit department, which reports on a regular basis to the audit committee. Areas where the internal and external auditors may carry out work include:

Attending the year-end inventory count in 30 stores annually.  
All stores are visited rotationally.

Checking the internal controls over the procurement systems (eg ensuring a liability is only recorded when the inventory has been received).

**Required**

For each of the above two areas, discuss:

- a) The objectives of the internal auditor **( 3 Marks)**
- b) The objectives of the external auditor **( 3 Marks)**
- a) Fraud and error present risks to an entity. Both internal and external auditors are required to deal with risks to the entity. However, the responsibilities of internal and external auditors in relation to the risk of fraud and error differ.

**Required**

- i) ■ Explain how the internal audit function helps an entity deal with the risk of fraud and error. **(4 Marks)**
- ii) Explain the responsibilities of external auditors in respect of the risk of fraud and error in an audit of financial statements **(4 Marks)**
- iii) Computer-Assisted Audit Techniques (CAATs) are used to assist an auditor in the collection of audit evidence from computerized systems.

**Required:**

List and briefly explain four advantages of CAATs.

- iv) Differentiate between Professional Judgment and Skepticism **(4 Marks)** ( 2 Marks)

**\*END\***