



ALUPE UNIVERSITY

COLLEGE

Bastion of Knowledge...

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OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2020 /2021 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 301

COURSE TITLE: AUDIT & INTERNAL REVIEW

DATE: 8TH MARCH 2021

TIME: 2.00PM-5.00PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE
- PLEASE TURN OVER

DURATION: 3 Hours

INSTRUCTION TO CANDIDATES

- i. Answer question ONE and any other TWO questions
- ii. Do not write on the question paper.

QUESTION ONE

a) The directors of MOFIRE Company limited appointed a new sales manager towards the end 31st December 2019. This manager devised a plan to increase sales and profit by means of a reduction in selling price and extended credit terms to customers. This involved considerable investment in new machinery early in the year 2020 in order to meet the demand which the change in sales policy had created. The draft financial statements for the year ended 31st December 2020 and comparative are shown below. The sales manager has argued that the new policy has been a resounding success because sales and, more importantly, profits have increased dramatically.

Statement of Profit or Loss

	Current sh '000	Comparative sh '000
Revenue	3,900	800
Cost of sales	(3,260)	(580)
Gross profit	640	220
Selling expenses	(150)	(120)
Bad debts	(90)	(10)
Depreciation	(168)	(58)
Interest	(112)	(9)
Net profit	128	123
Tax	50	47
Profit retained	78	76
Balance brought forward	1015	939
Balance carried forward	1093	1015

Statement of financial position

	Current shs '000	Comparative shs '000
Non current assets	3,540	1,332
current assets	821	125
Current liabilities:	(340)	(42)
Current assets less Current liabilities	4,021	1,415
Non current liabilities	(2,600)	(100)

Share capital	328	300
Equity reserves	1,093	1,015
	1,421	1315

Required:

(i) To explain whether you believe that the **performance** for the year ended 31 December 2020 and the **financial position** at that date have improved as a result of the new policies adopted by the company. You should support your answer with appropriate ratios. (6 marks)

(ii) To describe **TWO** matters you will investigate in your audit and their **audit test** as a result of the above review. (4 marks)

b)

You are the appointed the lead External Auditor of KK Ltd, a company listed on the Nairobi Securities Exchange (NSE) responsible for final audit. Your responsibility and scope of audit focuses on the **Property Plant and Equipment (PPE)** item of the balance sheet for the financial year ending 30th September 2020.

Require

i. In line with the **International Standards on Auditing (ISA)** outline audit objectives and corresponding **audit tests** appropriate in carrying out your review. (10 marks)

ii. With reference to **International Standards on Auditing (ISA)** “580”, *written representations*, highlight circumstances in which you may require management to write to you for confirming oral and implied representations (10 marks)

QUESTION TWO

a)

DNM Auditors firm has tendered for the audit of Hekima Group of Companies.

Required;

Evaluate **SIX** matters that should be considered before accepting the audit engagement (12 marks)

b)

Describe the comprehensive process in auditing public sectors in Kenya, citing the role of the Auditor (8mks)

QUESTION THREE

a)

Explain reasons for the increased number of lawsuits from third parties, brought against auditors in Kenya.

(10marks)

b) Using an **audit software** of your choice briefly describe how an audit can be carried on.

(10marks)

QUESTION FOUR

a)

Describe procedures that are used in detecting fraud where employees are non-existent suppliers and divert payments to themselves. (10 marks)

b) State and explain challenges incurred in adopting a new audit software in auditing data files in the sales and inventory systems. (10 marks)

QUESTION FIVE

a) Describe the audit procedures in a conducting a review on going concern of company. (10 marks)

b)

Explain the various audit risks that and auditor may face in the conduct of an audit review (10marks).