



STRATHMORE BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BFS 2102: PRINCIPLES OF AUDIT AND RISK MANAGEMENT

DATE: Tue, 23rd July 2024

TIME: 10:30 – 12:30

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE

(30 Marks)

- a) Freya, Phelida and Danny run a partnership business by the name “*Frepheda enterprises*”. The partners don’t think that there is any value in having their business financial records audited because unlike public limited companies it is not a statutory requirement.

Required:

Enlighten the partners about any five benefits associated with performing audit for a partnership business **(5 Marks)**

- b) Thayu & Karuri Certified Public Accountants acted as the auditors of Jambo Limited during the previous accounting period. The management of Jambo Limited insisted that the auditors could not retain custody of the working papers because they contained sensitive information about the client.

Required:

- i. Give **Four** reasons why the companies Act stipulates that working papers are a legal property of the auditor. **(4 Marks)**
- ii. The Act however, stipulates that there are some documents that the auditor cannot have lien over. Give **Four** examples of such documents. **(4 Marks)**

- c) Before accepting an audit engagement, accountants should first consider whether or not they can take on the work from an ethical, legal and practical point of view.

Required:

- Highlight the ethical, legal and practical issues being referred to. **(6 Marks)**
- d) Explain the duty/actions of an external auditor when s/he finds the client’s internal control system to be weak **(6 Marks)**
- e) Explain the purpose of the letter of representation. Give **Five** points. **(5 Marks)**

QUESTION TWO (20 Marks)

a) Setting materiality levels is a crucial stage in the audit planning process

Required:

- i. Define materiality (2 Marks)
- ii. Explain the criteria for assessing materiality (6 Marks)
- b) Explain the importance of analytical review procedures in audit. Give **Four** points (4 Marks)
- c) A company auditor is entitled to some rights during removal. Identify any **Five** rights. (5 Marks)
- d) Explain the concept of “value for money audit” as applied in public sector audit (3 Marks)

QUESTION THREE (20 Marks)

- a) Explain who determines a company auditor remuneration (6 Marks)
- b) Identify **Five** persons who are not eligible for appointment as company auditors. (5 Marks)
- c) Explain **Five** roles of the international standards on audit (5 Marks)
- d) Identify **Four** inherent limitations of the internal control system (4 Marks)

QUESTION FOUR (20 Marks)

- a) Good audit evidence should possess the three qualities. List and explain the **Three** qualities of good audit evidence (6 Marks)
- b) Explain **Five** reasons for debtor circularization (5 Marks)
- c) List **Six** examples of irregular vouchers that must not be accepted by the auditor (6 Marks)
- d) Explain **Four** roles of fixed assets register to the auditor (4 Marks)

QUESTION FIVE (20 Marks)

- a) Give **Five** reasons why an external auditor would examine the director’s minutes’ book. (5 Marks)
- b) Explain **Five** reasons why the auditor usually attends the client’s annual stock take. (5 Marks)
- c) Explain the audit procedures employed to detect misappropriation of goods. (5 Marks)
- d) The auditor might issue a qualified audit report because of “limitation of scope” Identify any five circumstances that could lead to limitation of scope (5 Marks)