



STRATHMORE BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
SPECIAL EXAMINATION

BFS 2102: PRINCIPLES OF AUDIT & RISK MANAGEMENT

DATE: Fri, 26th April 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. Restmount Kenya Ltd was formed on 1st October 2017 in order to export tea and coffee to Europe. The Directors are not sure of their responsibilities and the nature of their relationship with the external auditors. The audit partner has asked you to visit the client and explain to the directors, the important aspects of the accountability of the directors and their relationship with the auditor

Required:

- i. Explain the importance of an audit to the company **(6 Marks)**
 - ii. Highlight the procedures for the appointment of an auditor of a public company under the Companies Act **(5 Marks)**
 - iii. Explain the directors' responsibilities in relation to the accounting function of the company. **(4 Marks)**
- b. Give **five** reasons as to why an auditor would examine the memorandum of association. **(5 Marks)**

- c. Explain how internal control helps detect and prevent errors and fraud. (5 Marks)
- d. With respect to computerized auditing explain the limitations of test data. (5 Marks)

QUESTION TWO (20 Marks)

- a. Explain how fraud can occur in the following areas
 - i. The safety of unclaimed wages (4 Marks)
 - ii. The receipt of cash from customers (4 Marks)
 - iii. The company's cheque books (4 Marks)
 - iv. Issue of credit notes to debtors (4 Marks)
- b. Explain any **four** limitations of audit evidence. (4 Marks)

QUESTION THREE (20 Marks)

- a. In forming an audit opinion, the auditor needs not examine all the information that is available. S/he can make a conclusion about an account balance, class of transactions or a control by way of judgmental or statistical sampling procedures

Required:

- i. Explain why the auditor needs to adopt a sampling approach in his work. (2 marks)
- ii. List **four** situations where the auditor would be likely not to use audit sampling procedures. (4 Marks)
- iii. Describe **four** factors which the auditor should consider when determining the size of a sample. (8 Marks)
- b. Highlight **three** common risks encountered in carrying out an audit in a computerized environment. (6 Marks)

QUESTION FOUR (20 Marks)

- a. Explain meaning of each of the following terms which are used in connection with audit reports

- i. Limitations in scope of the audit (4 Marks)
- ii. A disclaimer of opinion (4 Marks)
- iii. An “except for” opinion (4 Marks)
- b. Debtor circularization is important is obtaining audit evidence
 - i. Explain **four** reasons for debtor circularization (4 Marks)
 - ii. Briefly explain the stages of debtor circularization (4Marks)

QUESTION FIVE (20 Marks)

- a. Explain why proper audit planning is critical ahead of carrying out an audit assignment (10 Marks)
- b. Explain why an auditor may need to review the previous year working papers. (10 Marks)