



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

**Date:** Monday, 25<sup>th</sup> July 2022

**Time:** 2 hours

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**Instructions:**

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

**QUESTION ONE**

- a. Explain the significance of strong internal control system to the auditor. Give five points  
(5 Marks)
- b. Professional evaluation of ethics and competence of an audit firm should be undertaken before an audit contract is granted. Identify any five statutory aspects that should be evaluated  
(5 Marks)
- c. Explain the three qualities of good audit evidence  
(6 Marks)
- d. Define negative circularization and explain four circumstances under which it is applied  
(5 Marks)
- e. Distinguish between error and fraud and give four reasons that makes it difficult to detect fraud  
(5 Marks)
- f. Explain four reasons why an auditor may need to review the previous year working papers  
(4 Marks)

## QUESTION TWO

- a. Explain five ways through which a company can commit fraudulent reporting (5 Marks)
- b. Elaborate the audit procedures followed in detecting the crime of teeming and lading (5 Marks)
- c. Auditing is not a statutory requirement for sole proprietors but it could be very beneficial. Explain any five benefits of auditing to a sole proprietor (5 Marks)
- d. Sometimes an audit firm may decide not to seek reappointment. Explain five possible reasons for this (5 Marks)

## QUESTION THREE

- a. Explain five indicators of a weak internal control system in an organization (5 Marks)
- b. Elaborate the audit procedures followed in detecting ghost workers (5 Marks)
- c. Audit planning is a very critical stage in the audit process. Give five benefits of preparing audit program (5 Marks)
- d. Explain five limitations of audit evidence (5 Marks)

## QUESTION FOUR

- a. Explain five difficulties an auditor may encounter when verifying stocks (5 Marks)
- b. Highlight five processing controls that could be implemented in a computerized accounting system (5 Marks)
- c. Explain five qualities of a company auditor (5 Marks)
- d. Vouching is very critical in obtaining audit evidence. Explain the objectives of vouching (5 Marks)

## QUESTION FIVE

- a. Explain the purpose of auditor's report (5 Marks)
- b. Discuss five consequences of qualified opinion (5 Marks)
- c. Explain what an auditor is required to do if the management fail to sign the letter of representation (5 Marks)
- d. Explain the procedure of filling an external auditor casual vacancy (5 Marks)