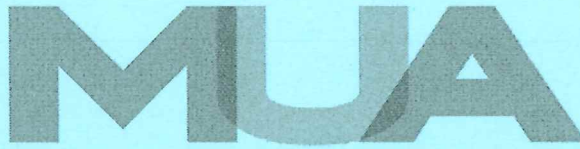


The
Management
University
of Africa



Sponsored by the Kenya Institute of Management

UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/

BACHELOR OF COMMERCE

BML 305/ ACC 412: AUDITING

DATE: 11TH DECEMBER 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

FREESIA COMPANY

Freesia Co is a company listed on a stock exchange. It manufactures furniture which it supplies to a wide range of retailers across the region. The company has an internal audit (IA) department and the company's yearend is 30 June 20X9. You are an audit supervisor with Zinnia & Co, preparing the draft audit programmes and reviewing extracts from the internal controls documentation in preparation for the interim audit.

Freesia Co generates revenue through visits by its sales staff to customers' premises. Sales ledger clerks, who work at head office, carry out credit checks on new customers prior to being accepted and then set their credit limits. Sales staff visit retail customers' sites personally and orders are completed using a four-part pre-printed order form. One copy is left with the customer, a second copy is returned to the sales ordering department, the third is sent to the warehouse and the fourth to the finance department at head office. Each sales order number is based on the sales person's own identification number in order to facilitate monitoring of sales staff performance. Retail customers are given payment terms of 30 days and most customers choose to pay their invoices by bank transfer. Each day Lily Shah, a finance clerk, posts the bank transfer receipts from the bank statements to the cash book and updates the sales ledger. On a monthly basis, she performs the bank reconciliation.

Receipts of raw materials and goods from suppliers are processed by the warehouse team at head office, who agree the delivery to the purchase order, check the quantity and quality of goods and complete a sequentially numbered goods received note (GRN). The GRNs are sent to the finance department daily. On receipt of the purchase invoice from the supplier, Camilla Brown, the purchase ledger clerk, matches it to the GRN and order and the three documents are sent for authorization by the appropriate individual. Once authorized, the purchase

invoices are logged into the purchase ledger by Camilla, who utilizes document count controls to ensure the correct number of invoices has been input. The company values its inventory using standard costs, both for internal management reporting and for inclusion in the year-end financial statements. The basis of the standard costs was reviewed approximately 18 months ago.

Freesia Co employs a mixture of factory staff, who work a standard shift of eight hours a day, and administration and sales staff who are salaried. All staff are paid monthly by bank transfer. Occasionally, overtime is required of factory staff. Where this occurs, details of overtime worked per employee is collated and submitted to the payroll department by a production clerk. The payroll department pays this overtime in the month it occurs. At the end of each quarter, the company's payroll department sends overtime reports which detail the amount of overtime worked to the production director for their review. Freesia Co's payroll package produces a list of payments per employee which links into the bank system to produce a list of automatic bank transfer payments. The finance director reviews the total to be paid on the list of automatic payments and compares this to the total payroll amount to be paid for the month per the payroll records. If any issues arise, then the automatic bank transfer can be manually changed by the finance director.

Required:

In respect of the internal controls of Freesia Co:

- a) Examine Five deficiencies (10 marks)
- b) Recommend a control to address each of the deficiencies in (a) (10 marks)
- c) Describe a test of control the external auditors should perform to assess if each of these controls, if implemented, is operating effectively to reduce the identified deficiency (5 marks)

QUESTION TWO

- a) Describe the audit process, from initial planning to final reporting (5 marks)
- b) Examine five activities and considerations at each stage (5 marks)
- c) Describe five contents of an audit planning memorandum and its importance to an auditor. (5 marks)

QUESTION THREE

A suitable criterion is the benchmark used to evaluate a subject matter for the purpose of presentation and disclosure.

Required:

- a) Describe three characteristics of a suitable criteria (4 Marks)
- b) Explain the three components of the fraud triangle. (3 Marks)
- c) Discuss four reasons why an auditor might decide not to seek for re-election. (8 Marks)

QUESTION FOUR

- a) Discuss five challenges of auditing in a computerized environment (5 marks)
- b) Evaluate five factors that auditors consider when evaluating an entity's ability to continue operating as a going concern. (10 marks)

QUESTION FIVE

The Auditors Operations standard requires the auditor to obtain relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusions there from.

Required:

- a) Define audit evidence (2 marks)
- b) Differentiate between relevant audit evidence and reliable audit evidence (6 marks)
- c) Describe the purpose of a management representation letter (7 marks)

QUESTION SIX

The Companies Act (Cap.486) sets out the duties of the auditors for a company in respect of his report and other matters.

Required:

- a) Distinguish between error and fraud. (2 marks)
- b) Discuss on the following *Giving relevant examples on each, discuss the following in relation to auditing*
 - i. Unqualified audit Opinion (4 marks)
 - ii. Qualified audit Opinion (3 marks)
 - iii. Disclaimer Opinion (3 marks)
 - iv. Adverse Opinion (3 marks)

