



MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY
P.O. Box 972-60200 – Meru-Kenya
Tel: +254(0) 799 529 958, +254(0) 799 529 959, + 254 (0) 712 524 293,
Website: info@must.ac.ke Email: info@must.ac.ke

UNIVERSITY EXAMINATIONS 2021/2022

**SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DIPLOMA IN BUSINESS
ADMINISTRATION**

BFD 2401: AUDITING

DATE: JANUARY 2022

TIME: 1½ HOURS

INSTRUCTIONS: *Answer question ONE compulsory and any TWO questions.*

QUESTION ONE (30 MARKS)

Kasuku Company Limited was established in January 2003, to sell and distribute household products. the directors are unaware at to their responsibilities and the nature of their relationship with the external auditors.

Required:

- a) Explain to the directors of Kasuku Company why there is need for an external audit (10 marks)
- b) Explain the responsibilities of the directors in relation to the accounting function of the company (10 marks)
- c) Explain the differences between accounting and auditing (10 marks)

QUESTION TWO (20 MARKS)

- a) What is the purpose of sending an engagement letter to a new client? (10 marks)
- b) Under what circumstances is it necessary to amend a letter of engagement? (10 marks)

QUESTION THREE (20 MARKS)

- a) Who is charged with the responsibility for the prevention and detection of frauds and errors? (10 marks)
- b) What action should the auditor undertake if he detects errors and frauds while carrying out a review of the client's financial statements? (10 marks)

QUESTION FOUR (20 MARKS)

- a) Distinguish between internal audit and internal check (4 marks)
- b) Explain the matters you would consider and the work you would perform to enable you access the extent to which you would rely on the work of the internal audit department of your client (12 marks)
- c) Give four examples of internal audit work that may be used by the external auditor (4 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the importance of the internal control system (10 marks)
- b) Explain the types of internal controls (10 marks)