INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: BBA
YEAR/SEM: YEAR 3/SEMESTER 2
COURSE CODE: ACC 3203
NAME: AUDIT PRINCIPLES AND PROCEDURE

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

Attempt all parts of this question

Question 1:

Case Study 1: Audit Risk and Audit Execution

Case Scenario:
ABC Ltd. is a medium-sized manufacturing company that produces electronic components. The company has grown significantly over the past three years and has expanded its operations internationally. During the audit planning phase, the auditors noted that ABC Ltd. has complex revenue recognition policies, particularly with respect to long-term contracts and international sales. Additionally, ABC Ltd. operates in a rapidly changing industry where technological advancements are frequent, creating a high level of uncertainty in the financial statements.

a) Explain the relationship between inherent risk, control risk, and detection risk in audit risk assessment. How would these risks apply to ABC Ltd.?

(10marks)

b) How might an auditor adjust the scope of audit procedures if the inherent risk of fraud is deemed high in a company like ABC Ltd.?

(10marks)

c) Evaluate how auditors determine the overall audit risk and how it influences the audit strategy and final report.

(10marks)

d) Analyze the challenges an auditor might face during the audit execution phase and their potential impact on the audit outcome.

(10marks)

Question 2:

Case Study 2: Audit Report and Opinion

Case Scenario:
XYZ Corp. is a public company listed on the stock exchange. The company has experienced significant financial challenges over the last year, including a substantial decline in revenue and losses in certain product lines. During the audit, the auditors identified a significant error in the financial statements related to inventory valuation, which was not corrected by the management. Additionally, the company has a history of inadequate internal controls and frequent changes in senior management.

Required:
a) Explain the purpose of an audit report and why it is critical for financial statement users, particularly in the case of XYZ Corp.?

(10marks)
b) Differentiate between an unqualified opinion, a qualified opinion, and an adverse opinion in the context of XYZ Corp.'s financial statements.
(10marks)
c) Suppose the auditor has uncovered a significant error in the financial statements, but the client refuses to adjust the financials. How would the auditor report this in the audit opinion for XYZ Corp.?

(10marks)
d) Evaluate how an auditor’s opinion can affect the company’s reputation and stakeholders' confidence, particularly for XYZ Corp.?

(10marks)

SECTION B

Attempt any 3 questions

Question 1:

Question 1: Audit Planning and Engagement Letter (20 Marks)

a) Define audit planning and explain its significance in the auditing process. (10 marks)

b) Describe the key components that should be included in an engagement letter. (10 marks)

Question 2:

Question 2: (20 Marks)

a) Analyze the consequences of inadequate audit planning in the context of an engagement letter. (10 marks)

b) What is audit sampling, and why is it important in the auditing process? (10 marks)

Question 3:

Question 3: (20 Marks)

a) List and explain the types of audit procedures commonly used by auditors. (10 marks)

b) Discuss the differences between substantive procedures and tests of controls. (10 marks)

Question 4:

Question 4: (20 Marks)

a) Define internal controls and explain their purpose within an

organization. (10 marks)

b) Identify and describe the components of an effective internal control system. (10 marks)

Question 5:

Question 5: (20Marks)

a) Demonstrate how you would assess the effectiveness of internal controls over cash disbursements. (10 marks)

b) Evaluate the impact of a weak internal control system on the financial reporting process and audit conclusions. (10 marks)

Question 6:

Question 6: (20 Marks)

a) Define audit risk and explain its components. (10 marks)

b) Discuss the relationship between audit risk and materiality in the context of financial statement auditing.

(10 marks)

Question 7:

Question 7: (20 Marks)

a) Define the purpose of the audit report and its significance. (10 marks)

b) Identify and explain the key components of an unqualified

audit report. (10 marks)

Question 8:

Question 8: (20 Marks)

a) Define audit evidence and explain its role in forming the auditor’s opinion. (10 marks)

b) Evaluate the impact of a qualified audit opinion on stakeholders, such as investors, management and creditors.

(10 marks)

Question 9:

Question 9: (20 Marks)

a) Discuss the different types of audit evidence and provide examples of each. (10 marks)

b) How would an auditor gather sufficient and appropriate evidence for verifying the existence of inventory in a manufacturing company?

(10 marks)

Question 10:

Question 10: (20 Marks)

a) Evaluate the importance of maintaining proper audit documentation and its role in supporting the audit opinion.

(10 marks)

b) What is materiality in the context of auditing, and how does it affect audit planning? (10 marks)

Question 11:

Question 11: 20marks

(a) Discuss the main objectives of an audit and how it benefits both the company and its stakeholders. (10marks)

(b) Explain the concept of "audit risk" and identify the three components of audit risk. How can an auditor manage audit risk during the audit process?

(10marks)

Question 12:

Question 12: 20marks

(a) Discuss the key components of an effective internal control system. (10 marks)

(b) Explain how the reliability of audit evidence is assessed.

(10marks)