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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR THREE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 301**

**COURSE TITLE: AUDIT AND INTERNAL REVIEW**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 01/04/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of THREE (3) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. A large company which manufactures pharmaceutical products has recently opened a chain of chemist’s shops across the country. This was to enable the company to sell its own brands of medicines to the public and also to diversify into retailing industry. Other manufacturer’s products are also through the shops. The board of the company is concerned that gross margins are not as good as had been budgeted. All purchasing is done centrally and the cost of goods sold is roughly in line with expectations, It has been suggested that fraud by staff is having an effect on recorded income, particularly as the shops have been designed to deter shoplifters,
2. State why it may be difficult to prevent fraud by staff in a major retail organization. **[5 marks]**
3. Explain in detail some of the controls which could be put in place within the shops to minimize or present fraud by staff **[15 marks]**
4. When no replies are received from debtors in a debtor’s circularization exercise, the auditor normally performs alternative procedures before he can conclude on whether the objectives of the circularization have been met. List and explain these alternative procedures. **[6 marks]**
5. Discuss the quality of audit evidence generated by direct confirmation techniques giving four examples.  **[4 marks]**

**QUESTION TWO**

You are a senior internal auditor and are about to go out on an audit exercise with a newly recruited audit trainee who has never been on an audit before. As part of the pre-audit briefing meeting, your manager has asked you to summarize in writing for the audit trainee the audit work involved in the major elements of the audit process.

**Required**:

Explain to the audit trainee, the main tasks involved in each of the following elements of audit process:

1. Planning the audit **[6 marks]**
2. Carrying out the audit procedures **[9 marks]**
3. Completing the audit and giving an audit report **[5 marks]**

**QUESTION THREE**

You are a senior internal auditor in charge of the audit of **Samura Engineers Ltd**., a company that produces electric motors for industrial use. In the course of the audit for the year ended 30th September 2018, you have ascertained the following weaknesses within their internal control systems:

1. The ordering, recording and payment for purchases of materials are made by the administration department manager.
2. When goods have been completed, they are transferred to the finished goods area to await loading for delivery; these goods are not checked to ensure they agree with the customer order.
3. All production workers are paid on an hourly basis according to the hours on their time records; these records are completed by each worker on a weekly basis and are not checked by the supervisor prior to being submitted to payroll department.
4. The office workers are paid monthly by direct transfer to their bank accounts; any changes to the salaries are notified verbally to payroll department by the personnel manager.

**Required:**

1. Based on the above information, draft a management letter to the company giving a description of the weakness, implications of the weakness and recommendations to address the weakness.

**[20 marks]**

**QUESTION FOUR**

Write short notes on the following:

1. Auditor’s lien; **[5 marks]**
2. Sampling; **[5 marks]**
3. Cut off procedures; **[5 marks]**
4. Contents of Director’s minute book **[5 marks]**

**QUESTION FIVE**

Your firm has been approached by the directors of Relief Supplies Transporters Ltd. who would like to engage your firm as the Company’s auditors for the next financial year, ending on 31st December 2018.The directors are of the opinion that their current auditors do not give a value for money audit and will be asked to resign.

**Required:**

1. Describe the statutory and ethical matters you would consider and the investigations you would undertake before your firm could accept appointment and be appointed as auditors of Relief Supplies Transporters Ltd. **[16 marks]**
2. Briefly explain why auditors should send a letter of engagement to client before they carry out the first audit  **[4 marks]**