



UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

ACC 421: AUDITING AND INVESTIGATIONS

DATE: 2ND APRIL 2026

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:

INTERNAL AUDIT BREAKDOWN AT DELTA MANUFACTURING LTD

Delta Manufacturing Ltd. is a medium-sized enterprise involved in the production and export of automobile components. Recently, the company faced a major issue: a significant shortfall in inventory worth KES 25 million was discovered during the end-of-year audit. The internal audit team, led by a newly hired auditor, had failed to detect discrepancies over a six-month period. The Board of Directors was stunned. Upon investigation, it was discovered that internal control systems for inventory were either weak or not implemented. The internal audit program had not been updated for over two years, and some members of the audit team lacked proper training on audit software.

The external auditors expressed serious concerns in their audit report, including an adverse opinion on inventory valuation and inadequate internal audit review. Additionally, suspicions arose about possible collusion between procurement staff and warehouse personnel. The company's CEO, in a press conference, blamed the failure on "poor audit oversight" but avoided discussing governance gaps. Media and shareholders called for accountability, leading to the resignation of the Head of Internal Audit.

During an emergency board meeting, the directors requested a full audit investigation to identify the lapses and make recommendations. They also expressed interest in restructuring the internal audit function and reviewing compliance with the

Companies Act. An audit firm was contracted to conduct the investigation and advice on rebuilding the internal control framework. The investigation confirmed the lack of internal control documentation, poor segregation of duties, and minimal evidence gathering during prior audits.

Required:

a) Discuss five major weaknesses in Delta Manufacturing's audit framework, and recommend suitable control improvements.

(10 Marks)

b) Examine five responsibilities of the internal auditor in this case, and how adherence to professional ethics could have changed the outcome.

(10 Marks)

c) Evaluate two audit evidence methods that could have detected the fraud earlier.

(5

Marks)

QUESTION TWO

a) Discuss five differences between internal and external auditing, and explain how both functions complement each other within an organization.

(10 Marks)

b) Explain two motivators that drive an organization to implement robust internal control systems.

(5 Marks)

QUESTION THREE

a) With reference to the Companies Act, describe the procedure and requirements for the removal and resignation of an auditor. **(10 Marks)**

- b) Examine five ways how an auditor's independence is affected by familiarity threats and how these can be managed.

(5 Marks)

QUESTION FOUR

- a) Evaluate the process of developing an audit programme and its role in an effective audit engagement.

(10 Marks)

- b) Discuss two key weaknesses that often occur during internal audits and suggest practical ways to address them.

(5 Marks)

QUESTION FIVE

- a) Discuss the steps involved in analytical review procedures and provide an example of how it can be applied in revenue verification.

(10 Marks)

- b) Explain how trend analysis can help auditors detect material misstatements.

(5

Marks)

QUESTION SIX

- a) Using relevant examples, examine five ways how substantive

testing is applied in the audit of assets and liabilities.

(10 Marks)

b) Describe two internal controls that help ensure accuracy in equity reporting.

(5 Marks)