



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 305 AUDITING PRINCIPLES

END OF FIRST SEMESTER EXAMINATIONS-mtre

NOVEMBER/DECEMBER 2016

LECTURER: NDONGWE I.

DURATION: 3 HOURS

INSTRUCTIONS

Answer **ANY** five (5) questions.

The marks allocated to each question are shown at the end of the question.

Credit will be awarded for logical, systematic and neat presentations. Show all working.



QUESTION ONE

- a. List and briefly explain the main threats to independence. (5 marks)
- b. Explain the fundamental principle of confidentiality and list the circumstances in which obligatory and voluntary disclosure of information may be applicable. (15 marks)

QUESTION TWO

- a. The purpose of an external audit and its role are not well understood. You have been asked to write some material for inclusion in your firm's training materials dealing with these issues in the audit of large companies.

Required:

Draft an explanation dealing with the purpose of an external audit and its role in the audit of large companies, for inclusion in your firm's training materials. (10 marks)

- b. Contrast the role of internal and external auditors. (10 marks)

QUESTION THREE

- a. You are an audit manager in McKay & Co, a firm of Chartered Certified Accountants. You are preparing the engagement letter for the audit of Ancients, a public limited liability company, for the year ending 30 June 2006. Ancients has grown rapidly over the past few years, and is now one of your firm's most important clients. Ancients has been an audit client for eight years and McKay & Co has provided audit, taxation and management consultancy advice during this time. The client has been satisfied with the services provided, although the taxation fee for the period to 31 December 2005 remains unpaid. Audit personnel available for this year's audit are most of the staff from last year, including Mr Grace, an audit partner and Mr Jones, an audit senior. Mr Grace has been the audit partner since Ancients became an audit client. You are aware that Allyson Grace, the daughter of Mr Grace, has recently been appointed the financial director at Ancients. To celebrate her new appointment, Allyson has suggested taking all of the audit

staff out to an expensive restaurant prior to the start of the audit work for this year.

Required:

Identify and explain the risks to independence arising in carrying out your audit of Ancients for the year ending 30 June 2006, and suggest ways of mitigating each of the risks you identify. (10 marks)

- b. Discuss the advantages and disadvantages of outsourcing an internal audit department.

(10 marks)

QUESTION FOUR

- a. Explain the meaning of audit risk in the context of the audit risk model. (5 marks)

- b. International Standard on Auditing 300 Planning an audit of financial statements, states that an auditor must plan the audit. Explain why it is important to plan an audit.

(10 marks)

- c. Explain the purpose of a representation letter.

(5 marks)

QUESTION FIVE

- a. Write brief notes on the procedures which an auditor is required to follow by the Code of Professional conduct when he is approached by a potential client with a view to replacing the potential client's current auditors. (10 marks)

- b. List and explain any five types/components/elements of internal control. (10 marks)

QUESTION SIX

In accordance with generally accepted auditing standards, an auditor should obtain sufficient audit evidence to support the audit opinion. This is achieved by performing verification procedures the details of which must be documented in suitable audit working paper.

- a. Explain the objects and functions of audit working papers. (8 marks)
- b. Indicate in point form general matters/items which working papers should show or include. (12 marks)

QUESTION SEVEN

Discuss the concept of materiality in relation to an audit. (20 marks)