



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC405 405 ADVANCED AUDITING

END OF FIRST SEMESTER EXAMINATIONS

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) Explain the objectives of the auditor in agreeing the terms of an audit engagement and when it may be appropriate to send a new engagement letter to an existing client. (8 marks)
- (b) Set out the main components of an engagement letter. (12 marks)

QUESTION TWO

ISA 300 *Planning An Audit Of Financial Statements* requires the auditor to plan his audit work so that the audit will be performed in an effective manner.

Required:

- (a) Explain why the need for planning exists and what benefits are to be derived from adopting such an approach. (8 marks)
- (b) Set out the steps you would take prior to the commencement of an audit of a limited company which has been a client for a number of years. (8 marks)
- (c) Planning is equally relevant to the work of the internal auditor. Explain how the internal auditor's planning differs to that of the external auditor. (4 marks)

QUESTION THREE

ISA 500 *Audit evidence* requires the auditor to obtain sufficient, appropriate evidence to be able to draw reasonable conclusions on which to base the audit opinion. That evidence should be relevant to the so-called 'financial statement assertions'.

Required:

- (a) Set out the main assertions about account balances (including relevant presentation and disclosure assertions) and provide an example of each one by reference to the audit of trade debtors. (10 marks)
- (b) Set out the seven main audit testing procedures and give an example of how each might be used in the audit of plant and machinery. (10 marks)

QUESTION FOUR



Control activities may be defined as policies, procedures and operations that help to enable management directives to be carried out. These activities are detailed procedures designed to prevent, or to detect and correct, errors that may arise in processing information.

Required:

- (a) Set out six examples of types of controls and illustrate each one in the context of the purchases or trade creditors system. (12 marks)
- (b) Explain why, even where tests of controls prove satisfactory, substantive procedures can never be completely eliminated. (8 marks)

QUESTION FIVE

- (a) List and briefly explain the main threats to independence and objectivity of an auditor. (10 marks)
- (b) Briefly explain the fundamental principle of confidentiality and list the circumstances in which obligatory and voluntary disclosure of information may be applicable. (10 marks)

QUESTION SIX

Set out the possible examples of documentary evidence which should indicate that the auditor has adhered to ISA 220 *quality control of an audit of financial statements*. (20 marks)

QUESTION SEVEN

- Explain how ISAs are developed by the International Auditing and Assurance Standards Board (IAASB). (8 marks)
- (b) Explain the role of the professional bodies in the regulation of auditors. (12 marks)

END OF PAPER

