



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 305 AUDIT PRINCIPLES

END OF SECOND SEMESTER EXAMINATIONS

APRIL/MAY 2017 (2)

LECTURER: I. RARAMI

DURATION: (3 HRS)

INDEPENDENT STUDY

INSTRUCTIONS

Answer **All** five (5) questions

Start each question on a new page in your answer booklet.

Each question carries 20 marks

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

Credit will be given for presentations that are neat, logical and grammatically well constructed.

QUESTION ONE [20 MARKS]

You are the Internal Audit Manager of Banda Banda Manufacturers (Pvt) Ltd. The Chief Executive Officer, Ms Christine Mapfumo, was asked by the Board of Directors to justify the existence of the Internal Audit Department. The Board argues that every year there is an external audit and as such the existence of the Internal Audit Department results in duplication of effort and an unnecessary drain of corporate funds.

Ms Christine Mapfumo wrote a memorandum to you, as Internal Audit manager, asking for assistance with the preparation of a paper to be presented to the Board. Some of the areas she would like you to cover include the following:

- a) What is an audit? [1 marks]
- b) The difference between an Internal Auditor and an External Auditor. [4 marks]
- c) Discuss the importance or relevance of the Internal Audit Department. [10 marks]
- d) How can the effectiveness of the Internal Audit Department be enhanced? [5 marks].

QUESTION TWO [20 MARKS]

The objectivity of the external auditor may be threatened or appear to be threatened where:

- i). There is undue dependence on any audit client or group of clients.
- ii). The firm, its partners or staff have any financial interest in an audit.
- iii). There are family or other close personal or business relationships between the firm, its partners or staff and the audit client.
- iv). The firm provide other services to audit clients.

Required:

- a). For each of the four examples given above, explain why the objectivity of the external auditor may be threatened, or appear to be threatened, and why the treat is important. [12 marks]

- b). Describe the methods or ways that reduce the threats to auditor objectivity for each of the four examples given above. [8 marks]

QUESTION THREE [20 MARKS]

- a).i) Why is it important for the existing accountant and the proposed accountant to communicate ? [3 marks]

ii) Mr Inflation was auditing Bond Note Holdings, as a new auditor. He discovered that the managers and staff are not cooperating with him. Some of the policy changes which were recommended in the previous audits were not changed. There are some issues which need some explanation from the previous auditor.

State the procedures which Mr Inflation should have followed before accepting an appointment involving professional work, originally carried out by another accountant. [5 marks]

- b) i).What is an engagement letter? [2 marks]

ii).What are the principal contents of an engagement letter? [5 marks]

iii). What are the factors that may make it appropriate to send a new letter of engagement? [5 Marks]

QUESTION FOUR [20 MARKS]

i).What is corporate governance? [2 Marks]

ii). State any four roles of the Chief Executive Officer. [4 Marks]

iii). State any four roles of the chairman [4 Marks]

iv). What are the functions of an audit committee? [5 Marks]

v), What are the advantages of an audit committee? [5 Marks]

QUESTION FIVE [20 MARKS]

- a). State and explain briefly the four fundamental principles of auditors. [8 marks]
- b). What are the functions of an audit committee? [6 marks]
- c). What are the disadvantages of an audit committee. [6 marks]

END OF PAPER