



THE COUNCIL OF COMMUNITY COLLEGES OF JAMAICA

BACHELOR OF SCIENCE EXAMINATION

SEMESTER III – 2013 AUGUST

PROGRAMMES: BUSINESS STUDIES

COURSE NAME: AUDITING
CODE: (ACCT4702)

YEAR GROUP: FOUR

DATE: WEDNESDAY, 2013 AUGUST 21

TIME: 1:00 P.M. – 4:00 P.M.

DURATION: 3 HOURS

EXAMINATION TYPE: FINAL



This Examination paper has 4 pages

INSTRUCTIONS:

SECTION B: ANSWER ANY THREE (3) QUESTIONS FROM THIS SECTION.

SECTION B

Instructions: Answer any THREE (3) questions from this section.

Question 1

Talk Ltd. is a company that provides call center services for a variety of organizations. It operates in a medium sized city in which your audit firm is the largest. Talk Ltd is owned and operated by two entrepreneurs with experience in this sector and has been in existence for five years. It is expanding rapidly in terms of its client base, the number of staff it employs and its profits. It is now 15 June 2009 and you have been approached to perform the audit for the year ending 30 June 2009. Your firm has not audited this company before. Talk Ltd has had three different firms of auditors since its incorporation.

Talk Ltd's directors have indicated to you informally that the reason they wish to change auditors is because of a disagreement about certain disclosures in the financial statements in the previous year. The directors consider that the disagreement is a trivial matter and have indicated that the company's accountant will be able to provide you with the details once the audit has commenced. Your firm has explained that before accepting the appointment, there are various matters to be considered within the firm and other procedures to be undertaken, some of which will require the co-operation of the directors.

Your firm has other clients that operate call centers. The directors have asked your firm to commence the audit immediately because audited accounts are needed by the bank by 30 July 2009. Your firm is very busy at this time of the year.

Required:

- a. Describe the matters to consider within your firm and other procedures that must be undertaken before accepting the appointment as auditors to Talk Ltd. **(10 marks)**
- b. Explain why it would be inappropriate to commence the audit before consideration of the matters and procedures referred to in (a) above have been completed. **(8 marks)**
- c. Explain the purpose of an engagement letter and list its contents. **(7 marks)**

(Total 25 marks)

Question 2

There are several applicable guidelines outlined by the professional code of ethics relating to an auditor's independence.

- a. Explain the professional rule of conduct that governs the independence of an auditor in carrying out audit engagements. **(8 marks)**
- b. State and explain **three (3)** actions that will impair the independence of the auditor. **(10 marks)**
- c. Explain **two (2)** ways in which the independence of an auditor in the performance of an audit engagement may be enhanced. **(7 marks)**

(Total 25 marks)

Question 3

- a. Discuss the role of an internal audit department in a large organization. **(7 marks)**
- b. Compare the role of the internal auditors with that of external auditors. **(10 marks)**
- c. Discuss the extent to which internal and external auditors can effectively relate to each other and the precautions which should be taken by the external auditors before placing reliance on the work of internal auditors. **(8 marks)**

(Total 25 marks)

Question 4

- a. You work for a medium-sized firm of certified accountants which has a number of offices, each with at least one partner. The senior partner has been considering ways of ensuring that the quality of audit work performed by the firm at its various offices is of a uniformly high standard.

Required:

You have been asked to write a memorandum to the senior partner of your firm which clearly outlines the quality control procedures which can be exercise internally within your firm. **(11 marks)**

- b. Since 1978 all public companies in the United States of America have been required to have an audit committee as a condition of listing on the New York Stock Exchange. Audit committees are now recommended for listed companies in the UK, as a result of the Cadbury Report.

Required:

- i. Explain what you understand by the term “audit committee”. **(2 marks)**
- ii. Briefly describe the duties and responsibilities of audit committees. **(6 marks)**
- iii. Explain three (3) advantages of such committees. **(6 marks)**

(Total 25 marks)

Question 5

- a. In the examination of financial statements, auditors must judge the validity of the audit evidence they obtain. For the following question, assume that the auditors have considered internal control and found it satisfactory.

Required:

In the course of examination, the auditors ask many questions of client officers and employees. Describe the factors that the auditors should consider in evaluating oral evidence provided by client officers and employees. **(10 marks)**

- b. Internal control consists of five interrelated components.

Required:

Name and explain the components of internal control. **(15 marks)**

(Total 25 marks)

END OF EXAMINATION