

**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**FOURTHYEAR FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 402**

**COURSE TITLE: AUDITING AND ASSURANCE SERVICES**

**DATE: 2nd February Time: 11.00 – 1.00pm**

**INSTRUCTIONS**

Answer Question **ONE** and other **THREE** questions.

**QUESTION ONE**

The auditors of Streetwise have recently been dismissed by the company. The directors of Streetwise have approached you to act as their auditors and have stated that they are prepared to pay $100,000 as an audit fee. Plus a bonus f 1% of the profits after taxation. The company manufactures and retails window frames. The directors have a poor reputation as regards employee welfare and there is a very high turnover of employees. A government department has previously investigated the business practices adopted by the company but no action was subsequently taken against the directors or the company.

###### Required

* + 1. Describe the steps the auditor must take before deciding whether to accept the nomination as auditor. **(10 marks)**
    2. State with reasons, whether the auditor may accept the method of remuneration as proposed by the directors **(7 marks)**
    3. Comment on the view that where the audit fee is fixed by the negotiation between the directors and the auditor, the confidence of the shareholders in the independence of the auditor may be affected. **(8 marks)**

**(Total: 25 marks)**

**QUESTION TWO**

IAS 1 Presentation of Financial Statements refers to three fundamental accounting assumptions which call for no explanation in published accounts and the observance of which is presumed unless it is stated otherwise. One of the fundamental accounting assumptions is the `going concern' assumption.

**Required**

List the points which you, as auditor of a medium-sized manufacturing company, would consider in determining whether it is appropriate that the accounts are prepared on a `going concern' basis. **(15 marks)**

**QUESTION THREE**

You have been in partnership with a fellow Certified Public Accountant for a number of years. Due to old age and ill-health your partner has suddenly resigned.

Unfortunately, some of the clients of your practice have also suddenly left you, thereby leaving you with few personal clients and only one large client which, on departure of your partner, will represent 30% of your total audit fee income.

While reviewing your business plan and your ethical position, you realise that in order to make the practice profitable and viable you will need to expand your client base considerably.

**Required**

(a) In the light of the Accountant's Act (Cap.531) and the Ethical Guidelines issued by the Institute, state with reasons whether you will have to resign as auditor of the large client. **(5Marks)**

(b) Outline the steps you are entitled to take in order to bring in more clients.

**(5 Marks)**

(c) Outline the actions which are specifically prohibited by the Ethical Guidelines for a practice which wishes to bring in more clients.

**(5 Marks)**

**(Total: 15 Marks)**

**QUESTION FOUR**

1. What should an accountant do about commissions?

**(2marks)**

(b) Enumerate the areas where conflict of interest may occur? (**2 marks)**

(c) What restrictions are there on advertising? **(2 marks)**

(d) How can an accountant obtain publicity in an ethical manner?

**(3 marks)**

(e) May an accountant send a video, showing how he could assist a potential company client, direct to that company? **(3 marks)**

(f) What are the rules on accountants' remuneration? **(3 marks)**

**QUESTION FIVE**

In the course of the audit of ABC Stationers Ltd. for the year ended 30 June 2001, you have noted and recorded in the audit working papers, the following evidential matters:

1. Flowcharts of the company’s payroll prepared by your audit assistant backed up by tests of controls.
2. An oral statement by the production director that the expected working life of plant acquired during the year is ten years.
3. A letter to the managing director from the company’s bank manager indicating that the bank intends to extend overdraft facilities for a period of one year.
4. A list of items of inventory counted by a member of your audit team during observation of the company’s annual stock count.
5. A letter from a customer to your firm in reply to a confirmation request indicating agreement with the balance recorded in the books of ABC Stationers Ltd.

**Required:**

* 1. With respect to each matter listed above, explain its relevance to the overall audit objective of forming an opinion and reporting on the financial statements. **(7 marks)**
  2. Explain your judgment on the reliability of the audit evidence obtained in five ways listed above. **(8 marks)**