UNIVERSITI UTARA MALAYSIA

FINAL EXAMINATION
FIRST SEMESTER SESSION 2006/07

COURSE CODE : KAA 5013 / ISSUES IN AUDITING
DATE : 9-15 OCTOBER 2006 (MON-SUN)
TIME : 
VENUE : 

INSTRUCTION:
1. This book script contains FOUR (4) questions in FOUR (4) printed pages excluding the cover page.
2. Answer ALL the questions in the answer sheets provided.
3. All ethical standards and policies of the university MUST be followed including plagiarism and cheatings.

MATRIK NO: ____________________________ 
(In wordings) ____________________________ 
(In figure) ____________________________ 
IDENTIFICATION NO. : ____________________________ 
LECTURER : ____________________________ 
GROUP : ____________________________
QUESTION 1 (25 MARKS)

You went to a recent international conference in Kuala Lumpur and met Datuk Kay, a prominent businessman. He told you this, "Nobody I know would want to hire an auditor if not the law requires so...they (the auditor) are just doing bean-counting!" Without long pause, he continued, "My auditor is lousy, I'm looking forward to have a new one!"

REQUIRED:

(a) Why would anybody want to audit their business? Explain. (10 Marks)

(b) Why would anyone change their auditor? Explain (10 Marks)

(c) Since the quality of an audit is unobservable, how can Datuk Kay know that his new auditor is better than the old one? Advise Datuk Kay. (5 Marks)
QUESTION 2 (25 MARKS)

Davis, Ricchiute and Trompeter (1993) poses the following question; “Does providing audit clients with non audit services result in knowledge spillovers and audit production efficiencies that could produce economic rents for auditor?” This is an interesting research question and after the said paper was discussed in a recent in-class presentation, you are now more than willing to share your own opinion.

Reference:
Davis, L.R., D.N. Ricchiute and G. Trompeter (1993). Audit effort, audit fees, and the provision of non audit services to audit clients. The Accounting Review, 68(1), 135-150

REQUIRED:

(a) In relation to the preceding paragraph,
   a. Would you agree with Davis et al. (1993)? Why?
   b. Critique their research method.

(10 Marks)

(b) Many auditors reply that non audit services would not impair their “independence in fact”. Suggest three (3) of their main arguments and counter their arguments with yours.

(10 Marks)

(c) Some researchers suggest that statutory audit fee acts as loss-leader in order to gain a more lucrative non-audit fee. Justify this claim (you are advised to provide some real-world examples to support your contention)

(5 Marks)
QUESTION 3 (25 MARKS)

"Human makes many mistakes but auditor makes only a professional error". Your younger brother heard this statement a few times from his accounting professor recently in an auditing course of his undergraduate study. He consulted you who now have been working several years in an international accounting firm as an audit manager. You went on explaining him that judgement is a complex issue and it is the starting point of all mistakes.

REQUIRED:

(a) Do simple human judgement mistakes occur to auditor? Discuss from psychological view in relation to auditing.

(10 Marks)

(b) In your accounting firm, they are numerous ways to deal with so-called "professional judgemental errors". Explain.

(10 Marks)

(c) Would this affect the infamous auditor's opinion of "true and fair view" or "present fairly"? State your defense.

(5 Marks)
QUESTION 4 (25 MARKS)

Much has been said about the advantage of having strong audit committee in corporate sectors. A recent study by Joshi and Wakil (2004) however suggests that audit committee in developing countries is lagging in many areas. This has brought some lights that either the idea is not working or there could be some structural problems within these countries that contribute to such dismal findings.

Reference:

REQUIRED:

(a) How would audit committee help external audit performing their statutory functions?

(10 Marks)

(b) In contrast, why would an audit committee that merely complies with listing requirement fails to deliver its duties? Discuss and provide possible situations/examples.

(10 Marks)

(c) Should audit committee have the power to hire or fire the external auditors? Explain.

(5 Marks)