An auditor should be independent in attitude and appearance.

1. In your opinion, what are the important issues affecting auditor independence in a capital market economy? (12 mks)
2. Why is the inquiry into auditor independence becoming increasingly important? (4 mks)
3. How can the independence of auditors be improved. (6 mks)

2. ‘The audit committee is usually responsible for supervising the relationship between the auditors and the company and of the conduct of the audit process. As the shareholders’ representatives, the audit committee has ultimate authority for selecting, evaluating, and, if needed, replacing the independent auditor. As a consequence, the external auditors are ultimately accountable to the audit committee and shareholders’ general meeting.’ Discuss the following questions with regard to the above statement:

a. What is an audit committee? What is the composition of an audit committee? (6 mks)

b. To what extent is the relationship with the audit committee beneficial to auditors?

c. How can the auditor’s performance be affected by an effective audit committee?

d. What type of information should the external auditors provide to those charged with governance?

e. To what extent does the composition of the audit committee and its independence affect;

(1) The company’s financial reporting and

(2) The auditor’s performance?

3.

a. Identify the six characteristics that determine the reliability of evidence.

b. For each characteristic, provide one example of a type of evidence that is likely to be reliable.

c. List the eight types of audit evidence included in this chapter and give two examples of each.

d. What are the characteristics of a confirmation? Distinguish between a confirmation and external documentation.