



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION: AUGUST 2010

AUDIT SKILLS: CAC 2103

TIME ALLOWED: 3 HOURS

MARKS: 100

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INSTRUCTIONS TO CANDIDATES

1. Attempt 5 questions ONLY
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books used.

QUESTION 1 (20 MARKS)

In modern and complex business organisation structures involving separations of the ownership and management function, the role of an external auditor has become increasingly important.

Required:

- a) What are the main objectives of an audit? (10 marks)
- b) Explain **Five** ways in which these objectives are achieved by an audit function. (10 marks)

QUESTION 2 (20 MARKS)

The International Federation of Accountants believes “the Code of Ethics of any accounting body should be based upon the fundamental principles by which an accountant should be governed in the conduct of his professional relations with others’.

Required:

Enumerate the professional ethics requirements as they affect accountants in practice on:

- a) Independence; (8 marks)
- b) Integrity;and (6 marks)
- c) Objectivity (6 marks)

QUESTION 3 (20 MARKS)

Statutory audits are requirement for certain forms of organisations and therefore must be performed to conform to certain standards.

Required:

- a) Discuss the importance of Audit engagement letter on the part of a statutory auditor before commencement of his duty/audit work. (10 marks)
- b) What, according to you, should be the principal contents of audit engagement letter? (10 marks)

QUESTION 4 (20 MARKS)

The auditor is a watch-dog, but not a blood hound,

Discuss how far this statement finds its relevance in relation to the functional responsibility of statutory auditor. (20 marks)

QUESTION 5 (20 MARKS)

By internal control is meant not only internal check and internal audit but the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records.

Required:

- a) Enumerate the objectives and characteristic of a satisfactory system of internal control. (10 marks)
- b) What are the inherent limitations of internal control? Mention and briefly explain. (10 marks)

QUESTION 6 (20 MARKS)

For several years, the CA firm of Mhlanga, Reed and Co. has audited Cobra Corporation, a closely held manufacturing company that is not under SEZ authority's jurisdiction. Cobra is now planning to "go public", issuing common shares to the public and using the proceeds to finance growth. The planned stock offering would put the company under the jurisdiction of the SEZ authority.

Required:

Discuss the reasons why the CA firm's potential legal liability with respect to this client will increase substantially if the company "goes public" (20 marks)