



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER SUPPLEMENTARY EXAMINATION PAPER: 2012/2013

DATE: JULY 2013

SUBJECT: AUDIT SKILLS CAC 2103

TIME ALLOWED: THREE HOURS, THIRTY MINUTES (3 ½ HOURS)

TOTAL MARKS: 100

INSTRUCTIONS TO CANDIDATES

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

QUESTION 1

[25 MARKS]

a) Explain the situations where an auditor may disclose confidential information about a client. (7)

b) You are an audit manager in McKay & Partners, a firm of Chartered Accountants. You are preparing the engagement letter for the audit of Ancients, a private limited liability company, for the year ending 30 December 2012. Ancients Pvt (Ltd) has grown rapidly over the past few years, and is now one of your firm's most important clients. Ancients has been an audit client for eight (8) years and your firm, McKay & Co has provided audit, taxation and management consultancy advice during this time. The client has been satisfied with the services provided, although the taxation service fee for the period to 31 December 2011 remains unpaid.

Audit personnel available for this years' audit are most of the staff from last year, including Mr Mhere an audit partner and Mr Jena, an audit senior. Mr Mhere has been the audit partner since Ancients Pvt (Ltd) became an audit client. You are aware that Alice Mhere, the daughter of Mr Mhere, has recently been appointed the financial director at Ancients Pvt (Ltd). To celebrate her new appointment, Alice has suggested taking all of the audit staff out to an expensive restaurant prior to the start of the audit work for the year ended 2012.

Required:

Identify and explain the threats to independence arising in carrying out your audit of Ancients Pvt (Ltd) for the year ending 31 December 2012, and suggest ways of mitigating each of the risks you identify. (18)

QUESTION 2

[25 MARKS]

You are a senior audit manager at Captain and Morgan Incorporated, a firm of chartered accountants. You joined the firm six (6) years ago, after spending two (2) years in New Zealand at one of the big four audit firms as an audit manager. Shortly after arriving back in Zimbabwe, Captain and Morgan head-hunted you and made you an offer you could not resist. They offered you a favourable package and a good client profile.

Captain and Morgan recently won a tender to audit Ram (Pvt) Ltd, a dairy and free-range livestock farm, for the year ended 31 December 2012. You are currently engaged in planning the 2012 year-end audit for Ram Pvt (Ltd) and you obtained the audit file from the audit senior, which includes the **New client pre-acceptance questionnaire** shown on the next page.

Services to be provided:

1. The statutory audit
2. Completion of the tax return and assisting management in preparing the financial statements

NEW CLIENT PRE-ACCEPTANCE QUESTIONNAIRE

Client	Ram (Pvt) Ltd	Year-end	31 Dec 2012
Prepared by	Audit senior	Date	11 Feb 2012
Subject	New client pre-acceptance questionnaire		
Criteria	Complied?		Comments
	Yes	No	
Audit firm will be independent in appearance when performing the engagements.	X		<i>The engagement partner has received eight cows from the owner and CEO of the farm, Peter Chimbwido. This will enable the partner to assist his son to pay lobola.</i>
The firm and its staff are competent to perform the engagement and have the capabilities, time and resources to do so.	X		<i>The new audit manager audited a farm while working in New Zealand.</i>
The potential client has demonstrated both the willingness and the ability to settle the fees for services rendered.	X		<i>The fee for statutory audit work is of little consideration, since high fees will be charged for tax services and preparation of financial statements.</i>
There is no evidence of a history of litigation by the potential client against its auditors.	X		
The previous auditor has resigned or was removed in compliance with the Companies Act.	X		
The client is agreeable to the terms of engagement contained in the standard audit engagement letter.	X		<i>The client has signed the letter but has expressed reservations regarding the right of access of the external audit staff to the clients' shareholders register.</i>
Contact previous auditor to confirm no professional reason not to accept the engagement.	X		<i>Done telephonically by the engagement partner.</i>
Procedures for gathering information		Comments	
Enquiries and discussions with the potential clients' board of directors and executive management		<i>Held discussions with Mr Peter Chimbwido, the CEO of the farm.</i>	
Inspection of the potential clients' prior year financial statements.		<i>Reviewed 2011 annual financial statements.</i>	
Conclusion: <i>All the criteria have been satisfied and Ram (Pvt) Ltd is accepted as a client.</i>			

Required:

Discuss, with reference to the **New client pre-acceptance questionnaire**, your concerns regarding the acceptance of Ram (Pvt) Ltd as an audit client. (25)

QUESTION 3

[25 MARKS]

The purpose of an external audit and its role are not well understood. You have been asked to write some material for inclusion in your firm's training materials dealing with these issues in the audit of large companies.

Required

- a) Draft an explanation dealing with the purpose of an external audit and its role in the audit of large companies, for inclusion in your firm's training materials. **(10)**
- b) Explain how International Standards on Auditing (ISA's) are developed by the International Auditing and Assurance Standards Board (IAASB). **(5)**
- c) The overall authority of International Standards on Auditing (ISAs) and how they are applied in individual countries. **(5)**
- d) The extent to which an auditor must follow International Standards on Auditing (ISAs). **(5)**

QUESTION 4

[25 MARKS]

Stern Engineering PLC, a company listed on the Zimbabwe Stock Exchange (ZSE) has undergone a period of substantial growth following its establishment five (5) years ago by two chemical engineers. Because of the lack of accounting expertise within the company it has traditionally looked to its auditors Jack Daniels and Partners, for accounting services for the preparation of annual financial statements as well as for the statutory audit function. Jack Daniels and Partners have also provided advice in connection with the company's accounting and internal control systems. Jack Daniels and Partners is a firm of chartered accountants whose clients are mainly sole traders, partnerships and small limited companies. Although Stern Engineering PLC was originally a typical small company client, its growth over the last five (5) years has meant that it now accounts for approximately 20% of Jack Daniels and Partners gross fee income and the company has indicated that it may wish to enlist on the Johannesburg Stock Exchange (JSE).

Required:

- a) Discuss the extent to which it is acceptable and desirable that Jack Daniels and Partners have in the past provided the three services of statutory audit, advice in connection with systems and attestation services in the compilation of annual financial statements to Stern Engineering PLC. **(7)**
- b) Discuss the acceptability and desirability of Jack Daniels and Partners continuing to act in the future as auditors to Stern Engineering PLC while continuing to provide other services. **(5)**
- c) If despite having been re-elected as company auditors, Jack Daniels and Partners decides to resign during the year state the procedures they should go through. **(4)**
- d) What actions should Stern Engineering PLC take on receipt of the letter of resignation from Jack Daniels and Partners **(4)**
- e) If the directors of Stern Engineering PLC decide to dismiss Jack Daniels and Partners during the year, the auditors having refused to resign, what rights do the auditors have? **(5)**

END OF EXAMINATION PAPER!