



# National University of Science and Technology

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**FIRST SEMESTER EXAMINATION: 2013/2014**

**DATE : DECEMBER 2013**

**SUBJECT : AUDIT SKILLS CAC 2103**

**TIME ALLOWED : THREE (3) HOURS**

**MARKS : 100**

## **INSTRUCTIONS TO CANDIDATES**

1. Answer all questions
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

**Question 1 (25 marks)**

The International Federation of Accountants' (IFAC) rules of professional conduct describe various situations and relationships, which if existing, could pose a threat to auditor independence. The guidance notes provide examples of appropriate actions that can be taken to safeguard against the loss of independence where such situations and relationships exist. At a recent training seminar, the following scenarios were presented for discussion:

On 20 October 2012, the audit engagement partner of Moyo and Co visited the offices of Gumbo, a limited liability company, to plan the final audit procedures for the year ending 31 December 2012. A week later, each of the five partners of Moyo and Co received an unsolicited letter from the Managing Director of Gumbo offering one year's free membership at one of the company's golf and country clubs with effect from 1 November 2012. Individual annual membership normally costs \$3,000 and the offer was not made to anyone else.

The wife of one of the audit managers at Ncube and Company (a large audit firm) and auditors of Bushcode, a limited liability company, has recently been appointed as the Financial Director of Bushcode. Immediately prior to her appointment she had been employed by one of Bushcode's competitors. Each of the directors of Bushcode is entitled to an annual bonus based on the reported profit of the company.

Haven, a long established firm, audit the financial statements of two private limited liability companies owned by Thomas Dillaz, an entrepreneur with a very dominant personality. The annual total fee income of Haven is \$830,000 and the combined audit fee attributable to the two companies is \$72,000. Thomas Dillaz has recently approached Haven with a view to appointing them as auditors to a third limited liability company under his control. The projected annual fee attributable to the third company is \$80,000.

**Required:**

For each of the above scenarios:

- a) Comment on any concerns you may have regarding the threats to auditor independence and objectivity. **(12)**
- b) Recommend the appropriate action to be taken by the audit firm to safeguard against any threat identified. **(13)**

**Question 2 (25 marks)**

When determining whether the financial statements of a company give a 'true and fair view', an auditor should consider various factors which include those listed below: For each of the factors listed below, explain its relevance to the auditor when determining whether the financial statements of a company give a true and fair view

- Materiality **(5)**
- Professional scepticism **(5)**
- Subject matter **(5)**
- Sufficient and appropriate audit evidence **(5)**
- Engagement letter **(5)**

**Total marks (25)**

**Question 3 (25 marks)**

Although superficially very similar, the structures of the accounting professions in Zimbabwe and South Africa differ. These differences, in turn, lead to differences in other areas.

**Required:**

Outline the similarities and differences in the structure of the accounting professions in Zimbabwe and South Africa. **(25)**

**Question 4 (25 marks)**

Assurance engagements are clearly defined in the International Standards on Auditing (ISAs), according to the International Federation of Accountant's framework for assurance engagements, Assurance engagement means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria

**Required:**

Explain the meaning of assurance engagements, giving examples, in accordance with International Federation of Accountant's framework for assurance engagements.

**(25)**

***END OF EXAMINATION PAPER***