



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**  
**FACULTY OF BUSINESS, ECONOMICS AND**  
**ACCOUNTING**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** :CAC408  
**COURSE TITLE** :ADVANCED THEORY AND PRACTICE OF AUDITING II  
**SPECIAL REQUIREMENTS** :NONE  
**DURATION** :3 Hours  
**LEVEL** :4.2  
**DATE** : 26 OCT 2021

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets [ ]

4 PM

## SECTION A

Answer all questions in this Section. Each question carries 2marks

Select the most appropriate answer.

1. Which of the following statements referring to review engagements are correct?

- i) A bank or 3rd party requires some assurance over the financial statements.
- ii) A review engagement is not as detailed as a statutory audit.
- iii) A review engagement provides a very high level of assurance.
- iv) The report in a review engagement will be in the form of positive assurance.

A. All of the above.

B. i) and ii) only.

C. i), ii) & iii) only.

D. i), ii) & iv) only.

2. Which of the following statements is correct:

- A. All countries are required by law to implement the international standards on auditing.
- B. Many countries choose to implement the international standards on auditing.
- C. Countries are required to modify the international standards on auditing before implementing them.
- D. Auditors can choose whatever auditing standards they see fit regardless of the country they are located in.

3. What is a 'whistleblowing function'?

- A. A special part of the organisation dedicated to the playing and composing of music on the tin whistle.
- B. A special part of the organisation dedicated to helping people feel valued in the workplace.
- C. A special part of the organisation where wrongdoing or malpractice can be
- D. A special part of the organisation to alert others in the event of a fire or other

needs to evacuate the building.

4. A 'Value for Money' audit examines whether a process is operating:

- A. Efficiently, Effectively and Engagingly.
- B. Economically, Effectively and Efficiently.
- C. Effectively, Economically and Efficaciously.
- D. Effectively, Expensively and Efficiently.

5. Which of the following are considered an ethical threat?

- i) Self Review.
- ii) Self-Instruction.
- iii) Self Interest.
- iv) Advocacy
- v) Confidentiality.

- A. All of the above
- B. i) & iii) only
- C. i) and iv) only
- D. i), iii) & iv) only

6. Put the following in the correct order to assess an ethical threat:

- i) Make a decision.
- ii) Consider the ethical issue and the ethical threat involved.
- iii) Assess the facts to understand the issue.
- iv) Discuss any potential safeguards to reduce the threat

- A. ii), iii), i), iv)
- B. iii), ii), iv), i)
- C. i), iii), ii), iv)
- D. iii), iv), ii), i)

7. An engagement letter can be seen as the contract between the auditor and the client. As such it should contain the terms of the engagement such as:

- i) Inherent limitations of audit.
- ii) The form of the audit report.
- iii) The opinion of the auditor.
- iv) Any use of internal audit or external experts.
- v) Deadlines.

Which of the above items would not appear in the engagement letter:

- A. iii) only
- B. i) only
- C. i) and iv) only
- D. i) & iii) only

8. Which of the following are the auditors' responsibilities when it comes to the financial statements?

- i) Giving an opinion as to their truth and fairness.
- ii) Selecting and applying accounting policies.
- iii) Gathering evidence to support the opinion given.
- iv) Planning and conducting the audit.

- A. i) & iii) only
- B. All of the above
- C. i) ii) & iv) only
- D. i) iii) & iv) only

9. Much of the work in the audit involves assertions. Which of the following statements is correct relating to assertions:

- A. The auditor makes the assertion and then tests it during the course of the audit.
- B. Management makes the assertions by inclusion of items in the financial statements
- C. Management makes formal assertions to the auditor in the form of a letter and those

assertions are given to the shareholders.

- D. The auditor may assume that the assertions made by management are correct if the Finance Director is a qualified accountant.
10. In order to verify a balance the auditor will carry out tests on a sample of the transactions that make up that balance. Which of the following are limitations to the use of this method to verify a balance:
- A. The auditor does not work in the business so will not understand the transactions that have been tested.
  - B. Not all transactions will be traceable in the computer system of the client.
  - C. Only a sample of the transactions is tested rather than 100% of them.
  - D. None of the above

**[Total 20marks]**

## Section B

Answer all questions in this Section

### Question One

- (a) Critically discuss any three factors, which indicate that a significant going-concern risk may be an issue on an audit. [15 marks]
- (b) On the assumption a company could continue as a going-concern, discuss the audit matters you should consider and the audit evidence you should expect to find in respect of each of the following:
- (i) Inventories (including inventories in transit)
  - (ii) Receivables (including the provision for bad and doubtful debts)
  - (iii) Payables (including intra-group balances). [15 marks]
- (c) Appraise the significance to the auditor, of protected disclosures by whistleblowers regarding audit clients. [10 marks]

[Total 40marks]

### Question Two

A national employer organisation is lobbying government on various issues that it deems are placing unnecessary costs on businesses and delivering little value to the businesses themselves or other stakeholders. One area within its line of sight is the 'audit report', which many of its members are required to publish within their annual reports. The organisation has had feedback from its members that audit reports have far too many "useless paragraphs and sections", such as: Audit Opinion; Basis of Opinion; Going Concern; Key Audit Matters, Auditor's Responsibilities; and the 'Bannerman' disclaimer. As part of its consideration of the usefulness of the 'audit report' you have been invited to present a discussion document to the employer body's research team.

#### Required:

Prepare a document for presentation to the research team in which you evaluate the

above.

marks]

[Total 20marks]

### Question Three

a) You have been asked to review the following audit opinion: Adverse Opinion on the Financial Statements

*“As more fully explained in note 10, the financial statements include an amount of \$96,192,840 representing the cost of the group’s property, plant and equipment. No provision for impairment has been made against these assets and the directors have undertaken no valuation appraisal. Published information concerning comparable properties indicates very significant reductions in valuations have been experienced. In our opinion, these circumstances indicate that provision should be made for impairment in values as required by International Accounting Standard 36: Impairment of Assets. Whilst the extent of impairment is subject to factors whose outcome cannot be determined with certainty, based on information relating to comparable properties, the effect of its omission is likely to materially overstate the carrying value of the Group’s assets at 31 December 2017; and understate its loss for the year then ended.*

*In view of the effect of the failure to provide for the impairment referred to above, in our opinion the financial statements do not give a true and fair view, in accordance with...”*

#### Required:

Critically appraise the appropriateness of this audit opinion. [10 marks]

b) Discuss the role of auditors in curbing money laundering [10 marks]

[Total 20marks]

**END OF EXAMINATION QUESTION PAPER**