



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 11
SPECIAL REQUIREMENTS :NONE
DURATION :3 Hours
LEVEL :4.2
DATE : 11 AUG 2021

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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 []

SECTION A

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

Select the most appropriate answer.

1. Which of the following describes a substantive test?

- i) A test of the details in the financial statements.
- ii) A test of an assertion.
- iii) A test of a balance.

- A. ii) only
- B. iii) only
- C. All of the above
- D. None of the above

2. During the risk assessment stage of the audit of Direwolf Co. the auditor determines through tests of control that the controls within the business are strong. What does this mean for the amount of substantive testing to be carried out during the audit?

- A. Less substantive testing will be carried out.
- B. More substantive testing will be carried out.
- C. No substantive testing will be carried out.
- D. None of the above

3. Which of the following assertions apply to bank and cash?

- 1. Rights & obligations.
- 2. Existence.
- 3. Occurrence.
- 4. Completeness.

- A. All of the above.
- B. 1, 2, & 4.
- C. 2, 3, & 4
- D. 1, 3, & 4.

4. Which of the following procedures could be used by the auditor to verify completeness of non current assets?

- A. For a sample of the assets in the fixed asset register, physically inspect them.
- B. For a sample of assets observed in the client premises, trace to the fixed asset register.
- C. Re-perform the depreciation calculation.
- D. Observe the condition of a sample of assets to ensure they are not impaired.

5. Which of the following are disclosures that are required around non current assets?

- 1. Break down of depreciation.
- 2. Opening and closing balances for each class of asset.
- 3. Depreciation policy.
- 4. Changes in policy.

A. All of the above.

B. 1, 2, & 4.

C. 2, 3, & 4

D. 1, 3, & 4.

6. When might an auditor use an expert opinion?

A. When the auditor is under time pressure and has to get an expert to perform parts of the audit.

B. Where the client requests an expert to be used.

C. In complex areas beyond the knowledge of the auditor.

7. Which of the following are benefits of using audit software?

1. Quicker auditing.

2. Auditing the system rather than printouts.

3. More testing can be done.

4. Costs can be reduced.

A. All of the above.

B. 1, 2, & 4.

C. 2, 3, & 4

D. 1, 3, & 4.

8. During the audit of Haylat Co. the auditor comes to the conclusion that the going concern assumption is appropriate. However, the auditor feels that management disclosures around going concern are not sufficient as there is a material uncertainty in existence.

What action should the auditor take?

A. Amend the accounts for the entity and present those accounts to the directors.

B. Ask the directors to re-state the accounts on a break-up basis and if they refuse, qualify the audit report.

C. Ask the directors to amend the disclosures and include an Emphasis of Matter Paragraph in the audit report.

D. Resign as the auditor and inform the shareholders of your decision.

9. Which of the following items would be found in a standard audit report?

1. The title and addressee.

2. The responsibilities of management.

3. The responsibilities of the auditor.

4. The audit opinion.

A. All of the above.

B. 1, 2, & 3.

C. 2, 3, & 4

D. 1, 3, & 4.

10. Howers Co. has just been audited and the auditor has found that management has incorrectly calculated depreciation for the several years. The error is such that if corrected, the accumulated profits will be turned into an accumulated loss. The directors have refused to correct the error.

What action should the auditor take?

- A. The auditor should issue an unmodified audit report with an Emphasis of Matter Paragraph.
- B. The auditor should issue a modified audit report with an adverse audit opinion.
- C. The auditor should issue a modified audit report with an 'except for' paragraph.
- D. The auditor should immediately resign and inform the shareholders.

[Total: 20 marks]

Section B

Answer all questions in this Section

Question One

You are a partner in a two-partner practice in a small rural town in Mashonaland West. There has been much talk in the town over the last few years about the migration of the population to urban centres; the closing down of several retail businesses; and the general feeling of pervasive neglect in the town centre. Some local community groups recently got together and opened a coffee shop, a small grocery store, and a community centre in a previously disused property, provided on a long lease at a 'peppercorn' rent by the local council.

A management committee consisting of a member of the county council, the principal of the local school, two local business people and the parish priest runs the enterprise. Although, between them, they have considerable experience of various 'for-profit' and 'not-for-profit' ventures, none has particular experience of managing retail outlets or coffee shops. The enterprise is run on a day-to-day basis by the manager who is the only full-time employee experienced in the type of businesses involved. There is one other paid part-time employee - the assistant manager - but all other staff members are volunteers.

The enterprise is registered as a charity with a legal requirement to reinvest any excess of income over expenditure into the operation, or into other local community initiatives, as the management committee sees fit.

It has been just over a year since the coffee shop was opened, and you are approached by a member of the management committee (a local business owner who is also one of your largest clients) to become the auditor of the not-for-profit enterprise. He tells you that the committee, of course, would not expect you to provide this service entirely pro bono (free of charge). He also mentions that he knows you wouldn't want to be seen to turn down this opportunity, given the way that "news can travel around in a small town".

He is well aware that the revenue generated by the enterprise is less than 5% of the limit at which a statutory audit would be required. However, he says that the committee feels that it could be perceived as "negligent" or "attempting a cover up" if it did not request an audit, should any problems involving, for example, the misappropriation of assets emerge in the

future.

Required:

- (a) Appraise, from an auditor's perspective, the importance of governance and governance structures, in the case of a small, independent charity such as described above. **[10 marks]**
- (b) Evaluate the ethical difficulties and other risks presented to your practice as a result of the request from your client to become the auditor of this registered charity. **[10 marks]**
- (c) Critically analyse the management committee's assertion that it needs to be seen to have appointed an auditor in case difficult issues such as asset misappropriation should subsequently emerge. **[10 marks]**
- (d) Assess the extent to which a "review" assignment, as distinct from a full audit assignment, would be a more appropriate solution to the issues raised in this scenario. **[10 marks]**

[Total 40marks]

Question Two

You are the audit manager of a new client, CBD Manufacturing Ltd (CBD), which operates from a single site, and employs approximately 900 production and 100 administrative staff. You are reviewing the audit documentation produced to date as the first interim audit (conducted by your firm) draws to a close. You note that the following appear to be the most important points raised by the audit senior and her staff:

- The company manufactures products that are considered to be of extremely high quality and all members of staff are committed to the maintenance of excellent standards in the manufacturing process. Customers recognise and appreciate the quality of CBD's products.
- Company managers and supervisors are happy to empower their employees and, whenever possible, to encourage them to use their initiative and make decisions with a minimum of formality.
- This approach encourages creativity, but has harmed the control environment, which is

now excessively lax. For example, most employees pay only 'lip service' to the budgetary control system and many completely ignore the variance reports that it produces. This has a negative effect on morale in the accounts department because the accounts staff often finds it very difficult to get co-operation from managers who tend to prioritise other matters.

- Suppliers, meanwhile, report that in most instances payment is received from CBD almost instantly but in a few cases, receiving payment can require several calls and e-mails. This is apparently because CBD's accounts staff receive erroneous or incomplete reports in relation to orders placed and goods received.
- The monitoring of controls is also highly inadequate for a company of this size, and there is no internal audit department (or similar function) to supervise the control system.

All of the above is substantiated by the results of the tests of controls carried out in the course of the interim audit.

Required:

Prepare a letter to the Board of Directors in which you:

- (a) Critically evaluate the respective importance of the following components of internal control to CBD:
 - (i) The control environment; and
 - (ii) The monitoring of controls. [12 marks]
- (b) Recommend the steps the Board of Directors should take in order to create an effective Internal Audit department. [8 marks]

[Total 20marks]

Question Three

In the ongoing debate on the future of audit and the skills needed to meet that vision, commentators have suggested that the following specific areas will require significant attention if the capabilities of auditors are to live up to future requirements:

- Structure of audit practices

- Increased competition
- Additional complexities
- Information technology
- Need for specialisation
- The role of internal audit
- Wider assurance
- Globally regulated environment
- Ethical values of society
- The need to warn of corporate collapse

Required:

- (a) In light of the above, discuss the future of auditing, including the knowledge and skills needs of those currently entering the profession. **[15 marks]**
- (b) How might an academic and training programme best meet the future requirements as outlined above? **[5marks]**

[Total 20marks]

END OF EXAMINATION QUESTION PAPER