



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTANCY AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 404

COURSE TITLE : ADVANCED AUDITING THEORY AND PRACTICE 1

SPECIAL REQUIREMENTS :

DURATION : 3 Hours

LEVEL : 4.1

DATE :

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **ALL FOUR (4)** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []

QUESTION 1

a. Consider the following scenarios which are not related in any way:

- i. An auditor attends the auditee's weekly cash flow meetings as financial expert and adviser.
- ii. Ms. Chloe, left the employ of Chiwaridzo (Private) Limited on 31 May 2018 to join an upcoming audit firm. On 15 February 2019 she is appointed as an engagement partner for the audit of Chiwaridzo (Private) Limited.
- iii. Zegu, an audit concern, has been outsourced to provide an internal audit function to Katena (Private) Limited which it has not audited before.
- iv. McPeters, an auditee, requests its auditors to recruit the Chief Operating Officer on its behalf.

For each and every situation, tabulate the following: the type of the threat, the fundamental principle under threat, and your motivation of why the threat exists and safeguards that may minimise the threat. **(16 marks)**

b. Outline the contents of an engagement letter. **(9 marks)**

QUESTION 2

a. Discuss any five of the auditors' responsibilities with reference to the prevention and detection of fraud. **(10 marks)**

b. You are the auditor-in-charge of the audit of Ephraim (Private) Limited whose year-end is 31 December 2018. The following journals are made available to you:

- A provision for credit notes of \$50,000.00 was set aside for credit notes that may be issued in 2019. The company's policy provides 3% of credit sales as at the last working day of the year as sales returns.
- A provision for audit fees for \$75,000.00 was made. This is a revised audit fee approved by management as it expects extra audit work.

What audit procedures should you would perform on these two journals.

(15 marks)

QUESTION 3

a. Define the following terms:

- i. Professional judgment. **(2 marks)**
- ii. Audit risk. **(3 marks)**
- iii. Risk of material misstatement. **(3 marks)**
- iv. Inherent risk. **(2 marks)**
- v. Sufficient and appropriate audit evidence. **(5 marks)**

b. Discuss the advantages and disadvantages of any three audit sampling techniques. **(10 marks)**

QUESTION 4

a. Discuss any five negative feedback mechanisms you expect to find in established organisations? **(10 marks)**

b. Based on any hypothetical business of your choice in which you have identified material weaknesses as an auditor, write a letter to management in which you highlight the said weaknesses. Your letter should include, but is not to limited to, the following in tabular form: the adverse observation, potential consequences, and recommendations for improvement. **(15 marks)**