



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC204
COURSE TITLE : AUDITING THEORY AND PRACTICE
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 2.1
DATE :

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 2 marks.

1. Which of the following is not a stage in the audit process
 - A. Planning
 - B. Responding to assessed risks
 - C. Gathering audit evidence
 - D. Preliminary

2. Which of the following is not a threat to auditor's independence
 - A. Familiarity
 - B. Self-interest
 - C. Self-actualisation
 - D. Self-review

3. All of the following are safeguards created by the audit profession except
 - A. Educational, training and experience requirements for entry into the profession
 - B. Continuing education requirements
 - C. Allocation of complex tasks to competent audit firms
 - D. Professional standards and monitoring and disciplinary processes

4. Professional skepticism requires that the auditor assumes that management is
 - A. Reasonably honest
 - B. Neither honest or dishonest
 - C. Not necessarily honest
 - D. Dishonest unless proved otherwise

5. The IFAC Code of Ethics recognizes that the objectives of the accountancy profession are:
 - A. To work to the highest standards of professionalism
 - B. To attain the highest level of performance
 - C. Generally, to meet the public interest requirement set out
 - D. All of the above

6. The appropriateness of audit evidence can be enhanced by the following except
- A. Independence of provider
 - B. Effectiveness of client's internal controls
 - C. Nature of the client industry
 - D. Qualification of provider
7. Which of the following is not a major cause of failure in the planning process
- A. Starting work before finishing planning
 - B. Inadequate documentation
 - C. Lack of understanding of the business
 - D. None of the above
8. Fraudulent financial reporting may be accomplished by the following except
- A. Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared
 - B. Misrepresentation in, or intentional omission from, the financial statements of events, transactions or other significant information
 - C. Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation or disclosure
 - D. None of the above
9. Possible indications of the existence of irregularities include the following except:
- A. Missing vouchers or documents
 - B. Falsified documents
 - C. Absence of investment policy
 - D. Evidence that internal control is not operating as it is intended
10. The following are reasons for planning except
- A. Ensuring the right team is selected for the assignment
 - B. Ensuring that the client receives an unqualified opinion
 - C. Ensuring the work is properly focused on material areas of risk
 - D. Ensuring that the nature and quantity of the work done addresses the risks and problem areas
11. The following are types of audit reports except
- A. Adverse opinion
 - B. Unqualified opinion
 - C. Quality opinion
 - D. Disclaimer of opinion

12. Which of the following is not a component of internal controls
- A. The control environment
 - B. The entity's risk assessment process
 - C. Physical access controls
 - D. Control activities
13. The differences between internal and external auditors lies in the following except
- A. Scope
 - B. Remuneration
 - C. Structure of reporting
 - D. All of the above
14. Disclosure of confidential information is permitted when
- A. Disclosure is permitted by law and is authorized by the client or employer
 - B. Disclosure is required by law
 - C. There is professional duty or right to disclose confidential information about a client
 - D. All of the above
15. Which of the following is not a right of the auditor in accordance with the Companies Act 24:03
- A. Access at all times to the books, accounts, vouchers and securities of the company
 - B. Access to all current and former accounts of any company subsidiary thereto
 - C. To give an audit opinion on the books reviewed during the audit process
 - D. To be heard at any general meeting which the auditor attends

[Total: 30 marks]

SECTION B

Answer all questions in this section

Question One

The auditor is often described as the grey-hound of his/her client and the public in general. An audit increases the credibility of the financial statements and plays an important role in the capital markets of the world.

REQUIRED

- (a) List the possible benefits of an audit and name the parties that will benefit from an audit. **[10 marks]**
- (b) Distinguish between an internal auditor and external auditor. **[8 marks]**

Auditors have various duties to perform in their role as auditors, for example, to assess the truth and fairness of the financial statements.

- c) briefly explain the auditor's rights as provided in the Companies Act (Chapter 24:03) which are meant to protect the auditor in carrying out statutory audit work. **[7 marks]**

[Total: 25marks]

Question Two

ISA 300: Planning an Audit of Financial Statements states that an auditor should plan the audit work so that the audit will be performed in an efficient and effective manner.

REQUIRED

- (a) Which critical areas should an auditor take into consideration during the planning stage in order to make the audit efficient and effective? **[5 marks]**
- (b) (i) identify and explain FOUR financial statement assertions relevant to account balances at the year end. **[5 marks]**
 - (ii) For each identified assertion, describe a substantive procedure relevant to the audit of year-end inventory. **[5 marks]**
- c) Define the following terms: (i) Audit risk **[3 marks]**
 - (ii) Professional skepticism **[2 marks]**

[Total: 20 marks]

Question Three

Your firm has been appointed external auditor to a large company that sells, maintain and leases office equipment and furniture to its customers. You have been asked to co-operate with internal audit to keep audit costs down. The company wants you to rely on some of the work already performed by internal audit.

The internal auditors provide the following services to the company:

- (i) A cyclical audit of the operation of internal controls in the company's major functions (operations, finance, client services and information services)
- (ii) A review of the structure of internal controls in each major function every four years
- (iii) An annual review of the effectiveness of measures put in place by management to minimize the major risks facing the company.

During the current year, the company has gone through a major internal restructuring in its information services function and the internal auditors have been closely involved in the preparation of plans for restructuring, and in the related post-implementation review.

REQUIRED

- (a) Explain the extent to which your firm will seek to rely on the work of the internal auditors in each of the areas noted above. **[7 marks]**
- (b) Describe the information your firm will seek from the internal auditors in order for you to determine the extent of your reliance. **[7 marks]**
- (c) Describe the circumstances in which it would not be possible to rely on the work of the internal auditors. **[6 marks]**
- (d) Explain why it will be necessary for your firm to perform its own work in certain audit areas in addition to relying on the work performed by internal audit. **[5 marks]**

[Total: 25 marks]

END OF EXAMINATION