

**ZIMBABWE EZEKIEL GUTI UNIVERSITY****FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING****DEPARTMENT OF ACCOUNTING AND FINANCE****EXAMINATION PAPER**

COURSE CODE : CAC404
COURSE TITLE : ADVANCED THEORY AND PRACTICE OF AUDITING I
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL :
DATE : 4.17 FEB 2022

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.

Select the most appropriate answer

1. 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

2. 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

3. 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

4. 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

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

6. 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
7. 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
8. 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
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. 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
12. Which of the following is not a right of the auditor in accordance with the Companies and Other Companies Act 24:31
- 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
13. The following are types of audit reports except
- A. Adverse opinion
 - B. Unqualified opinion
 - C. Quality opinion
 - D. Disclaimer of opinion
14. 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
15. 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

[Total: 30 marks]

SECTION B

Answer all questions in this section

Question One

You are the auditor of Rainbow Ltd and you have obtained the system description of the creditors process.

System notes: The manufacturing process

The manufacturing plant

The manufacturing plant is located in the industrial area of Harare about 15km from the head office.

The ordering of raw materials for manufacture

The plant manager, Mr Bhebhe is responsible for the monitoring of inventory levels for raw materials. When these levels appear to be low, he completes a pre-formatted sequenced order form in duplicate. One copy is sent to the supplier and the second copy is retained as a fast copy.

Receipt of Raw Materials

The plant has one entrance from which it receives deliveries of raw materials and another for the dispatch of finished goods. When goods are delivered, a guard at the delivery gate will request the delivery person to complete a log book with the relevant details.

Once through the gate, the receiving clerk, Moyo, conduct the following procedures:

- He checks the quantity of goods received to the quantity with the supplier's delivery note
- He signs the delivery note after recording any discrepancies
- He then completes a pre-formatted, sequenced, goods recieved note (GRN) and duplicate for the goods received
- One copy of the GRN is sent with the supplier's delivery note to John, the accounts clerk
- The other copy is retained in the plant's receiving warehouse.

Recording and Payment

On receiving the invoice from the supplier, John matches the reference numbers on the invoice to the GRN and delivery note, staples the documents together and files them alphabetically. He then enters the details per the invoice into the purchases journal and at month end, will post the

transactions to the relevant accounts payable accounts in the accounts payable ledger, and to the general ledger.

At the end of the month, John produces a list of accounts payable balances from the accounts payable ledger.

John then prepares a remittance advice and completes the following details on the cheque:

- ◆ Payee
- ◆ Amount
- ◆ Date

He then presents the cheques with the supporting source documentation to one of the two authorised cheque signatories (being the MD or sales manager) for signature. Once signed, the cheques are given to the office administration clerk by the signatory for posting and delivery.

Required

- (a) Identify and explain the weaknesses in the above system description. [10 marks]
- (b) Provide recommendations for the appropriate controls to be put in place for each weakness identified. [15 marks]

[Total 25 marks]

Question Two

- a) Explain the following types of audit reports:
- i. An unqualified with a modification; [3 marks]
 - ii. An adverse opinion; [3 marks]
 - iii. A disclaimer of opinion. [3 marks]
 - iv. Standard unqualified opinion [2 marks]
- b) Explain why it is important for the auditor to discuss the contents of the engagement letter at an early stage of an audit. [3 marks]
- c) Briefly explain five (5) auditor's rights as provided in the Companies and Other Companies Act (Chapter 24:31) which are meant to protect the auditor in carrying out statutory audit work. [5 marks]
- d) State and explain the four basic stages of the audit process? [4 marks]
- e) Identify a financial element of your choice and formulate an audit procedure. [2 marks]
- [Total: 25 marks]

Question Three

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

Briefly explain the auditor's fiduciary duties as provided in the Companies and Other Entities Act (Chapter 24:31). **[5 marks]**

(ii) *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? **[3 marks]**
- (b) (i) identify and explain FOUR financial statement assertions relevant to account balances at the year end. **[3 marks]**
(ii) For each identified assertion, describe a substantive procedure relevant to the audit of year-end inventory. **[3 marks]**
- c) Define the following terms: (i) Audit risk and Materiality **[4 marks]**
(ii) Professional skepticism **[2 marks]**

[Total: 20 marks]

END OF EXAMINATION QUESTION PAPER