



**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** : NONE  
**DURATION** : 3 Hours  
**LEVEL** : 4.1  
**DATE** : 27 JUN 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 1

Blue Star is a theme park based on a popular series of children's books. Customers pay a fixed fee to enter the park, where they can participate in a variety of activities such as riding roller-coasters, playing on slides and purchasing themed souvenirs from gift shops. The park is open all year and has been in operation for the last seven years. It is located in a country which has very little rainfall – the park is open-air so poor weather such as rain results in a significant fall in the number of customers for that day (normally by 50%). During the last seven years there have been on average 30 days each year with rain.

Blue Star is now very successful; customer numbers are increasing at approximately 15% each year.

#### Ticket sales

Customers purchase tickets to enter the theme park from ticket offices located outside the park. Tickets are only valid on the day of purchase. Adults and children are charged the same price for admission to the park. Tickets are preprinted and stored in each ticket office. Tickets are purchased using either cash or credit cards. Each ticket has a number comprising of two elements – two digits relating to the ticket office followed by six digits to identify the ticket. The last six digits are in ascending sequential order.

#### Cash sales

1. All ticket sales are recorded on a computer showing the amount of each sale and the number of tickets issued. This information is transferred electronically to the accounts office.
2. Cash is collected regularly from each ticket office by two security guards. The cash is then counted by two accounts clerks and banked on a daily basis.
3. The total cash from each ticket office is agreed to the sales information that has been transferred from each office.
4. Total cash received is then recorded in the cash book, and then the general ledger.

#### Credit card sales

1. Payments by credit cards are authorised online as the customers purchase their tickets.
2. Computers in each ticket office record the sales information which is transferred electronically to the accounts office.
3. Credit card sales are recorded for each credit card company in a receivables ledger.
4. When payment is received from the credit card companies, the accounts clerks agree the total sales values to the amounts received from the credit card companies, less the commission payable to those companies. The receivables ledger is updated with the payments received.

You are now commencing the planning of the annual audit of Blue Star. The date is 3 June 2021 and Blue Star's year end is 30 June 2021.

**Required:**

- a) List and explain the purpose of the main sections of an audit strategy document and for each section, provide an example relevant to Blue Star. [5 marks]
  - b) For the cash sales system of Blue Star, identify the risks that could affect the assertion of completeness of sales and cash receipts; [5 marks]
  - c) Discuss the extent to which tests of controls and substantive procedures could be used to confirm the assertion of completeness of income in Blue Star. [5 marks]
  - d) List the substantive analytical procedures that may be used to give assurance on the total income from ticket sales for one day in Blue Star; [4 marks]
  - e) List the substantive analytical procedures that may be used to give assurance on the total income from ticket sales in Blue Star for the year. [3 marks]
  - f) List the audit procedures you should perform on the credit card receivables balance. [3 marks]
- [Total 25marks]

**Question 2**

- a. Discuss any five of the auditors' responsibilities with reference to the prevention and detection of fraud. [10 marks]
  - b. What factors indicate the risk of irregularities [15 marks]
- [Total 25marks]

**Question 3**

- a. Define the following terms:
    - i. Professional scepticism [2 marks]
    - ii. Sampling risk [2 marks]
    - iii. Detection risk [2 marks]
    - iv. Control risk [2 marks]
    - v. Significant risks [2 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. [10 marks]
- [Total 20 marks]

**END OF EXAMINATION QUESTION PAPER**