



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 II
SPECIAL REQUIREMENTS :NONE
DURATION :3 Hours
LEVEL :4.2
DATE : 07 JUL 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. Which of the following statements referring to review engagements are correct?

- i) A bank or 3rd party requires some assurance over the financial statements.
- ii) A review engagement is not as detailed as a statutory audit.
- iii) A review engagement provides a very high level of assurance.
- iv) The report in a review engagement will be in the form of positive assurance.

- A. All of the above.
- B. i) and ii) only.
- C. i), ii) & iii) only.
- D. i), ii) & iv) only.

2. In the Audit Report the auditor gives their opinion on which of the following:

- i) The truth and fairness of the financial statements prepared by management.
- ii) The risk management system within the organisation.
- iii) The internal controls within the organisation.
- iv) Whether the financial statements were prepared in accordance with the appropriate framework.

- A. i) & ii) only.
- B. All of the above.
- C. None of the above.
- D. i) & iv) only.

3. Which of the following statements is correct:

- A. All countries are required by law to implement the international standards on auditing.
- B. Many countries choose to implement the international standards on auditing.
- C. Countries are required to modify the international standards on auditing before implementing them.
- D. Auditors can choose whatever auditing standards they see fit regardless of the country they are located in.

4. ABC Co. is a newly incorporated entity with 2 employees and a projected turnover in their first year of \$200,000 and assets of \$30,000. They are worried about the cost of an annual audit and ask for your advice. Which of the following would be appropriate advice to give?

- A. As an incorporated entity it is mandatory for them to be audited.
- B. Many jurisdictions have exemptions from audit for large companies but smaller ones are more risky so must be audited.
- C. An annual audit whilst not mandatory for many small companies may well be beneficial for their company.
- D. They do not need an audit because they are a very new company.

5. Which of the following is not reported 'by exception' as part of the audit?

- i) That proper returns have been made.
- ii) That the financial statements agree to the records.
- iii) That the financial statements provide a 'true and fair' view.
- iv) That all information and explanations have been obtained by the auditor.
- v) That other reports in the annual report are consistent with the financial statements.

- A. All of the above.
- B. i) & ii) only

C. i) ii) & v)

D. iii) only.

6. What is a 'whistleblowing function'?

A. A special part of the organisation dedicated to the playing and composing of music on the tin whistle.

B. A special part of the organisation dedicated to helping people feel valued in the workplace.

C. A special part of the organisation where wrongdoing or malpractice can be reported without fear of repercussion.

D. A special part of the organisation to alert others in the event of a fire or other need to evacuate the building.

7. A 'Value for Money' audit examines whether a process is operating:

A. Efficiently, Effectively and Engagingly.

B. Economically, Effectively and Efficiently.

C. Effectively, Economically and Efficaciously.

D. Effectively, Expensively and Efficiently.

8. Which of the following are considered an ethical threat?

i) Self Review

ii) Self instruction

iii) Self Interest

iv) Advocacy

v) Confidentiality

A. All of the above

B. i) & iii) only

C. i) and iv) only

D. i), iii) & iv) only

9. An example of a self-review threat is:

A. An auditor who holds shares in the company which they are auditing.

B. An auditor who implements an accounting system for an audit client.

C. An auditor who prepares tax returns for clients other than audit clients.

D. An auditor who speaks on behalf of a client at a tax investigation.

10. Joe is the audit partner in the Audit of Isal Co. an international retail firm listed on a major stock exchange. He has been audit partner for 3 years and is concerned about the familiarity threat that comes from auditing the same firm for too long. Which of the following would apply to Joe:

A. He should immediately stand down as the auditor of Isal Co. as there is a requirement to rotate the audit partner every 3 years.

B. He can remain the audit partner for another 4 years as there is a requirement to rotate the audit partner every 7 years.

C. He can remain the audit partner for another 2 years as there is a requirement to rotate the audit partner every 5 years.

D. He can remain audit partner indefinitely as rotation of the audit partner is only required when auditing an unlisted company.

SECTION B

Answer all questions

Question One

- (a) With reference to ISA 315 - *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, discuss the key procedures, which should be performed to assess the risk of cybercrime to a group of companies. (15 marks)
- (b) ISA 401 gives guidelines on auditing of in a computerized environment. Describe and explain areas in which auditing of computerized information system is different from auditing in a manual system. (15 Marks)
- (c) Discuss the statutory regulations governing the appointment and removal of an auditor. (10 marks)

(Total: 40 Marks)

Question Two

You are a manager in the audit department of Nidge & Co, a firm of Chartered Certified Accountants, responsible for the audit of Darren Ltd, a new audit client operating in the construction industry. Darren Ltd's financial year ended on 31 January 2015, and the draft financial statements recognise profit before tax of \$22.5 million (2014 – \$20 million) and total assets of \$370 million, including cash of \$3 million. The company typically works on three construction contracts at a time. The audit is nearly complete and you are reviewing the audit working papers. The audit senior has brought several matters to your attention:

- (a) Darren Ltd is working on a major contract relating to the construction of a bridge for Flyover Ltd. Work started in July 2014, and it is estimated that the contract will be completed in September 2015. The contract price is \$20 million, and it is estimated that a profit of \$5 million will be made on completion of the contract. The full amount of this profit has been included in the statement of profit or loss for the year ended 31 January 2015. Darren Ltd's management believes that this accounting treatment is appropriate given that the contract was signed during the financial year, and no problems have arisen in the work carried out so far. (8 marks)

(b) A significant contract was completed in September 2014 for Newbuild Ltd. This contract related to the construction of a 20-mile highway in a remote area. In November 2014, several large cracks appeared in the road surface after a period of unusually heavy rain, and the road had to be shut for ten weeks while repair work was carried out. Newbuild Ltd paid for these repairs, but has taken legal action against Darren Ltd to recover the costs incurred of \$40 million. Disclosure on this matter has been made in the notes to the financial statements. Audit evidence, including a written statement from Darren Ltd's lawyers, concludes that there is a possibility, but not a probability, of Darren Ltd having to settle the amount claimed. (6 marks)

(c) For the first time this year, the financial statements are presented as part of an integrated report. Included in the integrated report are several key performance indicators, one of which states that Darren Ltd's profit before tax has increased by 20% from the previous year. (6 marks)

Required:

Discuss the implications of the matters described above on the completion of the audit and on the auditor's report, recommending any further actions which should be taken by the auditor.

Note: The mark allocation is shown next to each of the matters above.

(Total: 20 Marks)

Question Three

A national employer organisation is lobbying government on various issues that it deems are placing unnecessary costs on businesses and delivering little value to the businesses themselves or other stakeholders. One area within its line of sight is the 'audit report', which many of its members are required to publish within their annual reports. The organisation has had feedback from its members that audit reports have far too many "useless paragraphs and sections". As part of its consideration of the usefulness of the 'audit report' you have been invited to present a discussion document to the employer body's research team.

Required:

Prepare a document for presentation to the research team in which you evaluate the usefulness

of each of the paragraphs and sections of an audit report specifically referred to above.

(20 marks)

END OF EXAMINATION QUESTION PAPER