



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 1
SPECIAL REQUIREMENTS : NONE
DURATION : 3 Hours
LEVEL : 4.1
DATE : 05 OCT 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 following are types of audit reports except

- A. Adverse opinion
- B. Unqualified opinion
- C. Quality opinion
- D. Disclaimer of opinion

2. Which of the following is NOT a statutory right of the auditors of a limited liability company?

- (1) A right to attend all directors' meetings and receive all notices and communications relating to such meetings.
- (2) A right to speak at general meetings on any part of the business that concerns them as auditors.
- (3) A right to attend any general meeting and receive all notices and communications relating to such meetings.

A (1) only

B (1) and (3)

C (2) only

D (2) and (3)

3. The PRIMARY purpose of an auditor evaluating and testing the internal controls of a limited liability company, is to enable the auditor to advise management of the deficiencies in the internal controls.

Is this statement true or false?

A True

B False

4. 'Audit risk' represents the risk that the auditor will give an inappropriate opinion on the financial statements when the financial statements are materially misstated. Which of the following categories of risk can be controlled by the auditor?

Category of risk:

- (1) Control risk
- (2) Detection risk
- (3) Sampling risk

A (1) and (2)

B (2) only

C (1) and (3)

D (2) and (3)

5. Which of the following should be facilitated by the standardisation of substantive procedure working papers?

- (1) Meeting of specified audit objectives.
- (2) Communicating with the staff of the audit client.
- (3) Delegation of audit work.

A (1) only

B (1) and (3)

C (2) and (3)

D (3) only

6. Which of the following types of internal controls does a small limited liability company normally have particular difficulty in implementing satisfactorily?

- (1) Segregation of duties.
- (2) Performance reviews.
- (3) Information processing.

A (1) only

B (2) only

C (3) only

D (1) (2) and (3)

7. 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

8. 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

9. 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

10. 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

11. 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

12. Which of the following is not a threat to auditor's independence
- A. Familiarity
 - B. Self-interest
 - C. Self-actualisation
 - D. Self-review
13. 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
14. 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
15. 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

[Total: 30 marks]

SECTION B

Answer all questions in this section

Question 1

“Auditors, like everyone else, are conscious of the very difficult current economic conditions and must consider the potential implications arising for their reports. They should not take ‘the easy way out’, however, by referring to going concern uncertainties in every audit report; rather, they must consider in each case whether there are circumstances specific to the entity that indicate significant uncertainties such as to warrant an ‘emphasis of matter’ paragraph in their audit report.” (from an article by Ronan Nolan FCA).

Required:

- (a) Critically evaluate three ways in which a set of financial statements prepared on a going-concern basis will differ from a set prepared on an alternative basis. [5 marks]
- (b) How might an auditor satisfy himself/herself as to the truth and fairness of the asset and liability valuations used in financial statements prepared on a basis other than the going concern basis? Justify your answer. [5 marks]
- (c) Discuss the statement by the author of the above quotation that the auditor ‘should not take ‘the easy way out’, however, by referring to going concern uncertainties in every audit report’. [5 marks]
- (d) Should auditors avoid the use of going concern qualifications in audit reports because such references tend to become “self-fulfilling prophecies”, thus making it even harder for the entity concerned to survive? Justify your answer. [10 marks]

[Total 25 marks]

Question 2

- a. Outline, in a systematic way, the contents of an Auditors’ Report that has an emphasis of matter paragraph. [20 marks]
- b. What are the duties of the auditor with regards to subsequent events? [5 marks]

[Total 25marks]

Question 3

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 what is meant by Audit risk and materiality and briefly explain their relationship **[5 marks]**

[Total: 20 marks]

END OF EXAMINATION QUESTION PAPER