



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC222
COURSE TITLE : AUDIT PROCESS
SPECIAL REQUIREMENTS : NONE
DURATION : 3 Hours
LEVEL : 2.2
DATE : 28 NOV 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 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
 - 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 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

[Total: 30 marks]

SECTION B

Answer all questions in this section

Question One

Your firm is responsible for auditing the financial statements of HK manufacturing Ltd., a privately owned incorporated business, for the year ended 31 December 2021. The company operates from a single site. Its sales are \$380 million and the profit before tax is \$8,360,000. There are no inventory records so the inventory counts at the year end will be used to value the inventory in the financial statements. As Monday 31 December 2021 is a normal working day, it has been decided that the inventory should take place on Sunday 30 December 2021 when there is no movement of inventory.

The company has produced the following schedule to determine the value of inventory at 31 December 2021 from that counted on 30 December 2021.

\$

\$

Value of inventory – 30 December 2021		44,326,772
Add: Cost of goods received on 31 December 2021	833,644	
Production; labour on 31 May 2004	247,760	
Overheads relating to labour at 120%	<u>297,312</u>	
		1,378,716
Less: Cost of goods sold on 31 December 2021		<u>2,792,240</u>
Value of inventory at 31 December 2021		42,913,248

The company keeps basic accounting records on a microcomputer using a standard software package. The accounting procedures for sales, purchases and wages comprise:

1. Dispatch notes are raised by the shipping department when the goods are sent to customers. Sales invoices are produced from dispatch notes. Sales invoices are input into the computer which posts them to the accounts receivable ledger and the general ledger.
2. When goods are received, a goods received note (GRN) is prepared, purchase invoices are matched with GRNs and purchase orders are authorized by the chief executive officer. After the purchase invoices have been authorized, they are input into the computer which posts them to the accounts payable ledger and the general ledger.
3. For the wages system, the hours worked by each employee are input into the computer which calculates the gross wage and deductions; PAYE, NISSA and the net pay. All employees are paid monthly.

Required:

(a) The audit procedures you should perform to verify the accuracy of the inventory count:

- (i) Before the inventory count, and (8 marks)
- (ii) On the day of the inventory count (7 marks)

Your answers to parts (i) and (ii) above should include details of the matter you should record in your working papers for follow-up at the final audit.

(b) The substantive procedures you should perform to check the company's schedule as shown above which adjusts the value of inventory at 30 December 2021 to that at the company's year end of 31 December 2021.

You are required to verify the total value of inventory of \$42,913,248 at 31 December 2021. *(You are not required to describe the procedures necessary to verify the accuracy of the individual values of raw materials, work in progress and finished goods, as required on IAS 2 – inventories.)* **(6 marks)**

(c) The substantive procedures you should perform to check the purchases cut off at the year end. **(4 marks)**

[Total: 25 marks]

Question Two

An Auditor is expected to obtain relevant and reliable audit evidence sufficient to enable him draw measurable conclusions as a basis for his report. You are required to:

(a) Discuss the factors, which may influence the auditor's judgment in relation to sufficiency of the evidence so collected. **(15 marks)**

(b) Discuss the factors that would enable the auditor assess the reliability of such evidence. **(10 marks)**

[Total 25marks]

Question Three

a) As the audit manager in charge of an audit of a large multinational company, draw up an audit programme for fixed assets for the use of the field staff. **(8 marks)**

b) Define and explain what is meant by analytical review procedures. **(4 marks)**

c) Discuss four types of general analytical review procedures. **(4 marks)**

d) What is the purpose of performing preliminary analytical review procedures at the audit planning stage? **(4 marks)**

[Total 20marks]

END OF EXAMINATION QUESTION PAPER