



**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** : 30 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. 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.
  
2. 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.
  
3. 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.
  
4. Archie is an auditor who has been working as part of an audit team of four on the audit of a

large listed client for several weeks. During his time there he has often interacted with client members of staff and has enjoyed their company. On the last day of the audit Archie is invited out for dinner and drinks by the client staff that say 'you'll not have to pay for a thing as we will use the company credit card'. Which of the following would best describe this situation:

- A. A small self-interest threat that could be avoided by politely declining the invite.
- B. A large self interest threat that should be reported to the audit partner and declined inno uncertain terms.
- C. An attempt to bribe the auditor to influence their opinion.
- D. No threat whatsoever.

5. ISA 315 states that before undertaking the audit, the auditor should gain an understanding of the entity. They should do this by considering the following:

- i) Potential for any illegal activities.
- ii) The industry environment.
- iii) The nature of the industry.
- iv) The clients audit history.
- v) The ability of management.
- vi) The understanding of management of the role of the auditor.

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

6. Enhyta Co. has sales invoices that are stamped as paid once the customer makes payment.

How can the auditor test that this control is being carried out?

- A. For a sample of the paid invoices, ensure that the bank account details on the invoice match the bank account details of the company.
- B. For a sample of the paid invoices, check that the date of the invoice is in the current year.
- C. For a sample of the paid invoices, check that they have been stamped as paid

7. Analytical procedures can be described as:
- A. A review of expectations based on ratio analysis, trends and industry information.
  - B. Ratio analysis to predict what next year's figures may look like.
  - C. Industry analysis to evaluate technological advances.
8. Which of the following is a procedure that the auditor could use to verify existence of receivables?
- A. Add up the aged receivable listing.
  - B. Undertake a receivables circularisation.
  - C. Re-calculate the bad debt write-off amount.
  - D. Check with company's house that each debtor is a legitimate company.
9. Which of the following explains why bank and cash a key area of the financial statements that requires careful auditing?
- A. Bank and cash is a component of gross profit and can therefore affect net profit.
  - B. Bank & cash is often material and is susceptible to fraud.
  - C. Bank and cash may be accounted for in many different ways.
10. Which of the following procedures could be used by the auditor to verify existence of non current assets?
- A. For a sample of the assets in the fixed asset register, physically inspect them.
  - B. For a sample of assets observed in the client premises, trace to the fixed asset register.
  - C. Re-perform the depreciation calculation.
  - D. Observe the condition of a sample of assets to ensure they are not impaired.

**[Total: 20 marks]**

## Section B (Answer all questions)

### Question One

- (a) In order to ensure that new trainees are aware of reporting in audit, the audit partner responsible for staff training has asked you to prepare some training material on the importance of different elements of an audit report. Prepare a memorandum for the audit trainees, which critically discuss different elements of audit reports and their importance. [10 marks]
- (b) Discuss how you would plan and execute a forensic audit [10 marks]

[Total: 20 Marks]

### Question Two

- (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 510 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 Three

You are the audit manager at Grant Thornton Zimbabwe, an accounting firm . The below situations below have arisen in three unrelated external audit clients of your firm. It is now 1 April 2019 and the year-end in each case is 31 December 2018.

#### **IT Supplies Ltd. (ITS):**

During the year, ITS was engaged by a customer to test its resilience to a cyber-attack. The

customer alleges that ITS “brought its system down”, resulting in three days of lost trade. The customer has initiated legal proceedings against ITS for negligence. You have reviewed correspondence in relation to the claim and have discussed the incident with the solicitor engaged by ITS. The solicitor has stated it is very likely the customer will win the case, and has estimated the loss to be within the range of \$1,500,000 to \$1,600,000. The directors of ITS have not recorded a provision in the year-end financial statements, as they believe ITS will win the case. ITS has presented a profit before tax of \$12,000,000 in the financial statements, and materiality has been calculated at 10% of profit before tax.

**Natural Slate Company Ltd. (NSC):**

NSC is reliant on the continuing support of its bank to fund operations. The current loan facility expires on 30 September 2019. However, the directors expect to be able to renew the facility on similar terms, although they have no binding agreement with the bank. The directors have prepared cash-flow forecasts for the year ended 31 December 2019, based on the assumption that the facility will be renewed. These forecasts indicate that the company will be able to meet its liabilities as these fall due. The directors have agreed to include a note to the financial statements, which fully discloses the situation. The audit report is due to be signed on 30 June 2019.

**Central Building Supplies Ltd. (CBS):**

CBS maintains continuous inventory records and, consequently, the company does not perform a physical count at the year-end. On 5 February 2019, a fire in the office at the CBS warehouse destroyed the company’s inventory and dispatch records. The physical inventory was not damaged. There were no satisfactory alternative audit procedures, which could be performed. The company has included an estimated closing inventory figure of \$805,000 in the financial statements. This estimate represents 5% of total assets and 20% of profit before tax.

**Required:**

- (a) Assess the **THREE** situations outlined above and state whether the audit report should be modified. Justify your conclusions and outline the modifications, if any, to each audit report. **[15 marks]**
- (b) Recommend additional procedures that should be undertaken with regards to Natural

Slate Company Ltd.'s cash flow forecasts prior to signing the audit report.

**[5 marks]**

**[Total: 20 Marks]**

**END OF EXAMINATION QUESTION PAPER**