



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 : 19 JAN 2023

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. 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.

2. A self-interest threat would occur when the auditor has a financial interest in the client. Which of the following would constitute such a threat:

- A. An auditor owning shares in a potential new audit client and selling them before accepting the appointment.
- B. A shareholder in the client firm owning shares in another firm, which is audited by the same auditor.
- C. A client not paying the fee for last year's audit by the time this year's audit begins.
- D. A client paying fees on accounts in advance of this year's audit as part of an agreed payment plan between the client and auditor.

3. The board of directors has responsibility for which of the following:

- i) Preparation of the Financial Statements.
- ii) Implementing an internal control system.
- iii) The risk management of the entity.
- iv) Preventing fraud and error.

A. iii) only

B. All of the above

C. i) ii) & iv) only

D. i) & iii) only

4. Materiality is a measurement of how large a misstatement may be before it constitutes a material misstatement in the Financial Statements. Materiality is initially set through a quantitative benchmark with further consideration then given to the nature of specific balances as well as the particular characteristics of the entity to be audited which may alter the level at which materiality is set. Is this statement

A. True

B. False

5. When ABC Co. receives a purchase invoice it is checked by the accounts clerk for accuracy then authorised by the line manager who signs it to verify that it has been authorised. How can the auditor test the control over authorisation of invoices is being carried out?

A. Enquire with the accounts clerk to verify that they observe the line manager do this on a regular basis.

B. For a sample of the invoices, re-calculate the invoice amount to ensure it is arithmetically correct.

C. For a sample of invoices ensure that they have been signed by the line manager.

D. For a sample of the invoices verify that the supplier is one of those on the authorised suppliers list.

6. Juntary Co. has high value inventory, which is stored in a secure location. How can the auditor test whether this control is being carried out?

A. Observe the location and inspect the security procedures to ensure they are adequate.

B. For a sample of invoices ensure that the delivery address matches that of the secure location.

C. For a sample of invoices, ensure that the orders are only made for goods that are not in stock.

7. All evidence gathered by the auditor in order to test an assertion or support their opinion must be:

- A. Specific and proportionate.
- B. Sufficient and appropriate.
- C. Salient and approved.
- D. None of the above

8. How can the auditor verify that the bad-debt write-off is correct?

- A. Compare it to last year, as it should be the same.
- B. Discuss with management and recalculate based on the information available.
- C. Carry out a receivable circularisation.
- D. None of the above

9. Which of the following procedures could be used by the auditor to verify valuation of payables?

- 1. Cast the list of payables.
 - 2. Check if any suppliers are missing from last year and investigate any that are.
 - 3. Vouch some of the payables at the year-end to post year-end payments made.
- A. All of the above.
 - B. 1 & 2 only.
 - C. 1 & 3 only.
 - D. 2 & 3 only.

10. Which of the following procedures could be used by the auditor to verify rights and obligations of non current assets?

- A. Vouch the ownership documents such as the deeds, registration documents or leased documents.
- B. For a sample of the assets in the fixed asset register, physically inspect them.
- C. Re-perform the depreciation calculation.
- D. None of the above

Section B

Answer all questions in this Section

Question One

You are the audit senior in charge of the audit of Advanced Office Equipment Suppliers plc (AOES) and are conducting the audit for the year ended 30 June 2018. AOES's provision for impaired receivables (doubtful debts) is calculated as a standard percentage based on historical collection experience. Specific provisions for impaired receivables have already been dealt with in a separate section of the file. Management uses the same process for estimating the provision for impaired receivables as in previous years. As part of its risk assessment procedures, the engagement team identified the following risk of material misstatement related to the valuation assertion:

- The entity may not appropriately update its provision for impaired receivables for changes in circumstances.
- The engagement team obtained the following evidence from the audit procedures performed to address this risk:
 1. Although year-end receivables are higher than previously, the current year provision as a percentage of gross receivables is consistent with prior years.
 2. The charge to the income statement in respect of specific impaired receivables written off remained consistent as a percentage of gross revenue over the past several years.
 3. A retrospective review of receivable collections indicates that management's provisions have historically been accurate.
 4. Economic conditions have been relatively stable and are predicted to remain so.
 5. Revenues increased substantially year over year as a result of the introduction of a new product line.
 6. The new product line is marketed towards customers in the education sector, especially private colleges and tuition providers, with which the entity does not currently have an established customer base.
 7. The private college/tuition sector generally has a higher rate of business failure than other customer segments.
 8. The entity's collections experience has primarily been with customers in the

legal services and accountancy sectors; the entity has very little collections experience with the new product line, given the recent launch.

9. Approved sales terms have not changed year to year (e.g. sales personnel may offer an extension of credit of up to 100 percent of the purchase price consistent with prior year, creditworthiness is determined in the same manner, and payment terms are consistent with prior year).
10. A greater percentage of sales is made on credit in the education/tuition market than in the traditional accountancy/legal market.
11. Competitors who supply similar office equipment products have higher provisions as a percentage of their trade receivables.

[Note that the engagement team may have identified additional risks of material misstatement related to the valuation assertion as part of its risk assessment procedures; however, in this example you are required to consider this specific risk of material misstatement only. There is no evidence of any fraudulent behaviour in this case].

Required:

- (a) For the case above:
 - (i) Comment on the problem caused by contradictory evidence on an assurance assignment, and evaluate the corroborative and contradictory audit evidence in the scenario. **[15 marks]**
 - (ii) On the basis of the case facts, determine whether the valuation of receivables is supportable, and recommend what additional information, if any, is needed to reach a conclusion. **[15 marks]**
- (b) Critique the well-known method of obtaining audit evidence known as 'the trade receivables confirmation or circularisation'. **[10 marks]**

[Total 40 marks]

Question Two

Thirty years ago, statutory audit reports typically consisted of one paragraph which informed the reader whether or not the financial statements showed a true and fair view, with perhaps a second paragraph to offer explanation if the report was modified in some way. Today, the proforma report even for a private company (with no actual content) for an accounting period beginning on or after 17 June 2016 runs to three closely typed pages.

Required:

Consider the reasons for the apparently inexorable lengthening of the audit report in recent decades. With specific reference to the most recent changes, discuss the extent to which readers, clients and auditors have benefited or otherwise as a result of the longer audit report format.

[20 marks]

[Total 20marks]

Question Three

- a) The following issues have been highlighted during the audit of MPR Ltd, an unlisted medium-sized company. There are nine directors in all, of whom three are non-executive directors. The executive directors and their immediate family members own all of the company's equity share capital.
1. There is one person in charge of the payroll and she has access to all aspects of the payroll system. She is responsible for processing changes to salary rates, all PAYE, and similar deductions, including an in-house Christmas savings scheme for staff. The payroll is not reviewed in detail in any systematic way, although the directors review management accounts, which are produced, on a timely basis each month. The Managing Director and one each of the other executive and non-executive directors is also a qualified accountant with considerable appropriate experience.
 2. The internal audit function consists of a chief internal auditor, an assistant internal auditor, and two trainees. The chief internal auditor and the assistant internal auditor have been in their posts for 10 and 9 years, respectively. At busy periods during the year, the trainees are often seconded to other work in the finance department. There is no policy on a particular set of standards for the internal audit team to follow.

3. The client's system for differentiating expenditure on repairs and maintenance from non-current asset expenditure appears to be not fit for purpose. The client's staff never makes a fuss about correcting any entries, which the audit team question and they seem unconcerned about the fact that misclassifications tend to happen on a regular basis, sometimes for material amounts.

Required:

For each of the above issues, draft a suitable paragraph for inclusion in the management letter.

marks]

[15

- b) Describe the objectives of a forensic audit.

[5 marks]

[Total 20marks]

END OF EXAMINATION QUESTION PAPER

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