



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL MANAGEMENT

EXAMINATION PAPER

COURSE CODE :CAC408

COURSE TITLE :ADVANCED THEORY AND PRACTICE OF AUDITING II

SPECIAL REQUIREMENTS :NONE

DURATION :3 Hours

LEVEL :4.2

DATE : 12 APR 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.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []

Question One

- a) Distinguish between the following pairs of terms as used in: ISA 700 *The Independent Auditor's Report on Financial Statements*; ISA 705 *Modifications to the opinion in the Independent Auditor's Report*; and ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, and give one example of how each might be used in practice.
- i. Disclaimer of Opinion versus Adverse Opinion
 - ii. Emphasis of Matter paragraph versus Other Matter paragraph
 - iii. Unmodified Report versus Unmodified Opinion. (12 marks)
 - iv.
- b) You are the audit manager of Kurota Ltd, a private company that retails furniture. Summary draft and audited results show the following:

	2022 (draft)	2022 (audited)
	\$m	\$m
Revenue (for the year to 30 June)	45.0	43.0
Profit before taxation (for the year to 30 June)	2.0	1.5
Total assets (as at 30 June)	31.0	24.0

The following points should be considered in the drafting of the Audit Report.

1. Kurota Ltd leases one of its main retail facilities from a partnership controlled by its Chief Executive Officer (CEO). Your review of the lease indicates that the lease costs Kurota about \$50,000 more per annum than would normally be expected in an 'arm's length' transaction. Kurota refuses to disclose this related-party transaction in the notes to the financial statements for the year ended 30 June 2022.
2. Kurota has one small subsidiary in Zambia. Restrictions on the repatriation of earnings from this country were introduced in July 2021 and remain in place. As a result, Kurota has decided to account for the subsidiary on an equity basis this year. You are satisfied as to the appropriateness of this change and it is fully disclosed in the financial statements.
3. During the audit, you discovered that inventory to the value of approximately \$1 million had been excluded from the financial statements of the company. After discussing this with management, you are satisfied that it was an unintentional oversight. The error was corrected prior to the conclusion of the audit.

REQUIRED:

Evaluate the implications of these three matters for the Audit Report for the Year Ended 30 June 2022 and your continuing relationship with Kurota Ltd. **(13 marks)**

[Total: 25 Marks]

Question Two

You are the audit senior of Bringco & Co and are planning the audit of Wadyana Co (Wadyana) for the year ended 31 December 2022. The company produces printers and has been a client of your firm for two years; your audit manager has already had a planning meeting with the finance director. He has provided you with the following notes of his meeting and financial statement extracts. Wadyana's management were disappointed with the 2021 results and so in 2022 undertook a number of strategies to improve the trading results. This included the introduction of a generous sales-related bonus scheme for their salesmen and a high profile advertising campaign. In addition, as market conditions are difficult for their customers, they have extended the credit period given to them. The finance director of Walters has reviewed the inventory valuation policy and has included additional overheads incurred this year as he considers them to be production related.

The finance director has calculated a few key ratios for Wadyana; the gross profit margin has increased from 44.4% to 52.2% and receivables days have increased from 61 days to 71 days. He is happy with the 2022 results and feels that they are a good reflection of the improved trading levels.

Financial statement extracts for year ended 31 December

	DRAFT	ACTUAL
	2022	2021
	\$m	\$m
Revenue	23.0	18.0
Cost of sales	(11.0)	(10.0)
	<hr/>	<hr/>
Gross profit	12.0	8.0
Operating expenses	(7.5)	(4.0)
	<hr/>	<hr/>
Profit before interest and taxation	4.5	4.0
	<hr/>	<hr/>
Inventory	2.1	1.6
Receivables	4.5	3.0
Cash	—	2.3
Trade payables	1.6	1.2

Required:

- a) Using the information above:
- i. Calculate an additional THREE ratios, for BOTH years, which would assist the audit senior in planning the audit; and **(6 Marks)**
 - ii. From a review of the above information and the ratios calculated, describe SIX audit risks and explain the auditor's response to each risk in planning the audit of Wadyana Co. **(12 Marks)**
- b) Describe the procedures that the auditor of Wadyana Co should perform in assessing whether or not the company is a going concern. **(7 marks)**
- [Total: 25 Marks]**

Question Three

The incidence of Enron Case that involved Arthur Andersen as the auditor saw pressure bodies and governments pushing for heavy regulation of the audit professions.

- a) Describe and explain the regulatory environment under which auditors operate. **(8 Marks)**
 - b) Explain the importance of regulation the audit profession. **(8 Marks)**
 - c) Forensic Audit has gained popularity across the globe. This is being necessitated by a couple or reasons and chief among these is the rise in frauds involving accountants and auditors. Giving examples, explain how a forensic audit differs from a financial audit. **(9 Marks)**
- [Total: 25 Marks]**

Question Four

- a) 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)**
 - b) Discuss the statutory regulations governing the appointment and removal of an auditor. **(10 marks)**
- [Total: 25 Marks]**