



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

---

**FACULTY OF LAW BUSINESS INTELLIGENCE**

**ECONOMICS**

---

**DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL  
MANAGEMENT**

**EXAMINATION PAPER**

**COURSE CODE** : CAC 408/425  
**COURSE TITLE** : ADVANCED THEORY AND  
PRACTICE OF AUDITING 2//ADVANCED AUDITING  
**DURATION** : 3 Hours  
**DATE** : 08 APR 2024

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Answer **ALL** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets [ ]

**1. 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

**2. 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 quantitate 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

**3. When Abba Ltd. 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.

**4. Veteran Ltd 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 instock.

**5. 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.

**6. 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.

**7. 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.

**8. 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.

**9. Much of the work in the audit involves assertions. Which of the following statements is incorrect relating to assertions:**

- A. The auditor makes the assertion and then tests it during the course of the audit.
- B. Management makes the assertions by inclusion of items in the financial statements and the auditor tests those assertions.
- C. Management makes formal assertions to the auditor in the form of a letter and those assertions are given to the shareholders.
- D. The auditor may assume that the assertions made by management are correct if the Finance Director is a qualified accountant.

**10. 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.

## SECTION B: ANSWER ALL QUESTIONS

### Question 1

You are a partner in a firm of Certified Public Accountants. The following issues have emerged in relation to three of your clients.

(a) Easter is a major client. It is listed on a major Stock Exchange. The audit team consists of eight members, of whom Paul is the most junior. Paul has just invested in a personal pension plan that invests in all the listed companies on the exchange.

(b) You are at the head of a team carrying out due diligence work at Electra, a limited company which your client, Powerful, is considering taking over. Your second in command on the team, Peter, has confided in you that in the course of his work he has met the daughter of the managing director of Electra, and he is keen to invite her on a date.

(c) Your longest standing audit client is Teddies, which you have been involved in for ten years, four as engagement partner. You recently went on an extended cruise with the managing director on their yacht. Required Comment on the ethical and other professional issues raised by the above matters.

Your answer should outline the threat arising, the significance of the threat, any factors you have taken into account and, if relevant, any safeguards you could apply to eliminate or mitigate the threat. **(10 marks)**

Question You have been informed by the senior partner of your firm that you are to be in charge of the audit of a new client, Peppermint Chews, for the year ended 31 December 20X4. She tells you that the company is engaged in the manufacture and wholesaling of sweets and confectionery, with revenue of approximately \$10,000,000 and a workforce of about 150. The company has one manufacturing location, sells mainly to the retail trade but also operates ten shops of its own. The senior partner asks you to draw up an outline audit plan for the assignment showing when you anticipate visits to the client will be made and what kind of work will be carried out during each visit. The deadline for your audit report is 28 February 20X5. Required Draw up an outline plan for the audit of Peppermint Chews for the year ended 31 December 20X4, including:

(a) Approximate timing in the company's year of each stage of the audit of this new client. State why you have selected the approximate timing (4 marks)

(b) The objective of each stage (3 marks)

(c) The kind of work that will be carried out at each stage (3 marks)

## Question 2

As audit senior, you have recently attended a meeting with the managing director of Go Shop Co (audit client) and the new audit partner assigned to the audit, Mike Kenton, who has recently joined your firm, Eastlake and Pond. The audit partner is familiarising himself with the client. Go Shop Co is a large limited liability building company set up by John Yeams, who has been managing director since incorporation. It operates in the south of the country, purchasing land outside of major towns and building retail parks, which the company then manages. You are familiar with the client, as you have taken part in the audit for the last three years. The other key member of the board is Kathleen Hadley, who set up the business with John Yeams and is finance director. Kathleen is a qualified accountant, and the accounting systems and procedures at Go Shop Co have always appeared sound. You took minutes of the meeting, which are given below. Minutes of a meeting between Mike Kenton and John Yeams, 30 March 20X2 MK introduced himself to JY and asked for a brief history of the business, which was given. Currently, the majority of income is from the property management side, as the building market is becoming saturated. With interest rates set to rise, JY is less keen to borrow and build in the current climate. MK asked JY whether a recent spate of terrorist bomb attacks had had any effect on business. JY commented that he had been given the impression that retail was down and that customers were staying away from the retail centres – but he felt that some of that could be attributed to a rise in interest rates and was likely to be temporary. The first months of the year are always poor for retail ... MK asked whether there had been a rise in empty units in the retail centres. JY said there had been a small rise. MK asked JY about his views in relation to the current proposed legislation before the Government concerning quality Page 8 of 24 standards in the building trade. JY commented that it seemed like a 'load of nonsense' to him, and expressed some dissatisfaction with the current political situation ... MK pressed the matter, enquiring as to JY's opinion on the likely effects on his business were more stringent standards to be required in the future. JY is of the firm belief that it would not be passed. MK expressed his fear that the legislation

was more than likely to be passed, and would have far-reaching and expensive effects on most builders in the country. JY repeated some of his previous comments about politicians. MK enquired as to whether there were any anticipated developments in the business that he should know about. JY made reference to KH's plans to retire from full-time work in the business. MK asked how JY was going to replace her. JY commented that he was hoping to persuade her to stay on as she deals with all the financial side, and he'd be lost without her. MK tried to enquire how firm her retirement plans were, but JY was not forthcoming. After the meeting, Mike Kenton asked you to ring Kathleen and discuss her plans. She confirmed that she does plan to retire. She informed you that she plans to emigrate to Australia, and is not keen to put back her plans. She asked about the possibility of Eastlake and Pond assisting in the recruitment process for her replacement, as she does not feel that John Yeams has the technical ability to recruit someone without her, and has not accepted her plans enough to recruit before her retirement. She said that she has even wondered about the possibility of someone being seconded to the company from Eastlake and Pond to cover her position after she has left and before her replacement is found. Mike is keen to reappraise the audit strategy taken towards the audit of Go Shop, as he feels the audit could be conducted more efficiently than it has been in the past. Historically the audit has been highly substantive.

Required

- (a) Identify and explain the key business risks that exist at Go Shop. (5 marks)
- (b) Explain what is meant by the 'business risk approach' to an audit. (5 marks)
- (c) Propose and justify a strategy for the audit of Go Shop. (5 marks)
- (d) Discuss the ethical implications for the audit of the two suggestions made by Kathleen. (5 marks)

### Question 3

Auditors are required to exercise professional scepticism at all stages of the audit, including planning explain how does an auditor exercise professional scepticism and which should the auditor focus much on (10 marks)

- (a) Explain the reasons why a criminal may want to launder money, even if this means that they may have to pay tax on it. (5 marks)

(b) Explain the reasons why it would be difficult for an external auditor to detect money laundering activity. **(5 marks)**

**Question 4**

(a) Discuss what responsibility auditors have to detect fraud. **(4 marks)**

(b) Explain how the auditors might conduct their audit in response to an assessed risk of:

(i) Misappropriation **(3 marks)**

(ii) Fraudulent financial reporting **(3 marks)**

(c) What five circumstances are required for a standard unqualified report to be issued

**(10 marks)**

**END OF EXAMINATION QUESTION PAPER**