



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC 412
COURSE TITLE : AUDIT THEORY, SKILLS AND PRACTICE
SPECIAL REQUIREMENTS : NONE
DURATION : 3 Hours
LEVEL : 4.1
DATE : 11 APR 2025

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 1

You are a partner in Mega & Co, Certified Accountants. You are approached by Mr Ngoni, the MD of Nashi Enterprises Ltd, who asks your firm to become auditors of his company. In return for giving you this appointment Mr Ngoni says that he will expect your firm to waive 40 per cent of your normal fee for the first year's audit. The existing auditors, Andy & Co, have not resigned but Mr Ngoni informs you that they will not be re-appointed in the future.

Required

- a. What action should Mega & Co take in response to the request from Mr Ngoni to reduce their first year's fee by 50 per cent? (4 marks)
- b. Are Andy & Co within their rights in not resigning when they know Mr Ngoni wishes to replace them? Give reasons for your answer. (4 marks)
- c. Read the case study below and answer questions below it.

The growing recognition by management of the benefits of good internal control and the complexities of an adequate system of internal control have led to the development of internal auditing as a form of control over all other internal controls. The emergence of internal auditors as experts in internal control is the result of an evolutionary process similar in many ways to the evolution of external auditing.

Required

- i. Explain why the internal and independent external auditors' review of internal control procedures differ in purpose. (4 marks)
- ii. Explain the reasons why internal auditors should or should not report their findings on internal control to the following company officials:
 - 1) the board of directors (4 marks)
 - 2) The chief accountant (4 marks)

[Total 20 marks]

Question 2

You are the manager responsible for the audit of Musa Stores Ltd. which has a number of stores which sell household products to the general public, including furniture, electrical

equipment, cooking equipment and carpets. The company has annual sales of about 10m. In previous years' audits, there have been problems with:

- i. Misappropriations of inventory by employees and customers.
- ii. Slow moving and damaged goods which are worth less than cost, and
- iii. Incomplete recording of sales when the customers pay by cash (these represent 55% of all sales)

The company has a small internal audit department, the staff of which visit branches and perform appropriate audit work at the head office.

Required:

(a) Describe the work you will carry out and the matters you will consider in planning the audit prior to the commencement of the detailed audit work, including consideration of the timetable for the audit. (12 marks)

(b) Describe the procedure you will carry out to control the audit including reviewing the work of the audit staff. (8 marks)

[Total: 20 marks]

Question 3

Read the following and answer questions below.

ISA 315 states that the auditor shall obtain an understanding of control activities relevant to the audit and how the entity has responded to risks arising from IT.

An internal control system has been described as comprising 'the control environment and control activities. It includes all the policies and procedures (internal controls) adopted by the directors and management of an entity to assist in achieving their objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information'.

- a) Explain the meaning and relevance to the auditors giving an opinion on financial statements of each of the management objectives above. (10 marks)
- b) What are the assertions that auditors seek to confirm during their work. (5 marks)
- c) Name two key inherent limitations of an internal control system (5 marks)

[Total 20 marks]

QUESTION 4

You have been assigned to the audit of Tavonga Co and you are drafting the audit program for payables and accruals for the year ended 31 December 2023.

The company operates from a site in Bindura. All raw materials are received in the stores and all deliveries are checked to the delivery note and purchase order. The stores supervisor raises a goods received note and is also responsible for raising credit requests if there are any problems with the raw materials delivered.

When the purchase ledger department staff receive the purchase invoices, they match them to the relevant goods received notes and purchase orders, and post them to the computerised purchase ledger. Suppliers are paid on the last day of each month.

Other payables and accruals consist of tax, wages and other statutory deductions, accruals and time apportioned expenses such as electricity and telephone.

Required

Describe the audit work you will carry out:

- a) To compare suppliers' statements with balances recorded on the purchase ledger. (5 marks)
- b) To check that purchases cut-off has been applied correctly. (5 marks)
- c) To confirm that payables and accruals have been accurately stated. (5 marks)
- d) State 4 issues auditors should consider when carrying out analytical review on wages and salaries (5 marks)

[Total: 20 Marks]

Question 5

You are involved with the audit of Jet, a small clothing company. You have been carrying out procedures to gain an understanding of the entity. The following matters have come to your attention:

- i. The company offers standard credit terms to its customers of 60 days from the date of invoice.
- ii. Statements are sent to customers on a monthly basis. However, Tantpro does not employ a credit controller, and other than sending the statements on a monthly basis, it does not otherwise communicate with its customers on a systematic basis.
- iii. On occasion, the sales ledger clerk may telephone a customer if the company has not received a payment for some time.
- iv. Some customers pay regularly according to the credit terms offered to them, but others pay on a very haphazard basis and do not provide a remittance advice.
- v. Sales ledger receipts are entered onto the sales ledger but not matched to invoices remitted. The company does not produce an aged list of balances.

Required

- a) From the above information, assess the risks of material misstatement arising in the financial statements. **(5 marks)**
- b) Outline the potential materiality of the risks and discuss factors in the likelihood of the risks arising. **(5 marks)**
- c) Discuss the quality of the following types of audit evidence, giving two examples of each form of evidence.
 - i. Evidence originated by the auditors **(2 marks)**
 - ii. Evidence created by third parties **(2 marks)**
 - iii. Evidence created by the management of the client. **(2 marks)**
- D] Describe the general considerations which auditors must bear in mind when evaluating audit evidence. **(4 marks)**

[Total 20 marks]

END OF EXAMINATION QUESTION PAPER