

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B. COM ACCOUNTING

COURSE: AUDITING THEORY AND PRACTICE

COURSE CODE: CAC204

DURATION: 3 HOURS

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.

Question One

- a) You are an audit manager in Earnest and Young, a large audit firm which specialises in the audit of retailers. The firm currently audits OK Ltd, a food retailer, but OK Ltd.'s main competitor, TM Ltd, has approached the audit firm to act as auditors. Both companies are highly competitive and OK Ltd is concerned that if Earnest and Young audits both companies then confidential information could pass across to TM Ltd.

Required

Explain the safeguards that your firm should implement to ensure that this conflict of interest is properly managed. **(5 marks)**

- b) OK's year end is 31 December, which is traditionally a busy time for Earnest and Young. OK Ltd currently has an internal audit department of five employees but they have struggled to undertake the variety and extent of work required by the company, hence OK Ltd is considering whether to recruit to expand the department or to outsource the internal audit department. If outsourced, OK Ltd would require a team to undertake monthly visits to test controls at the various shops across the country, and to perform ad hoc operational reviews at shops and head office. OK Ltd is considering using Earnest and Young to provide the internal audit services as well as remain as external auditors.

Required

Discuss the advantages and disadvantages to both OK Ltd and Earnest and Young of outsourcing their internal audit department. **(10 marks)**

- c) The audit engagement partner for OK Ltd has been in place for approximately six years and her son has just accepted a job offer from OK Ltd as a sales manager; this role would entitle him to shares in OK Ltd as part of his remuneration package. If Earnest and Young is appointed as internal as well as external auditors, then OK Ltd has suggested that the external audit fee should be renegotiated with at least 20% of the fee being based on the profit after tax of the company as they feel that this will align the interests of Earnest and Young and OK Ltd.

Required

Explain the ethical threats which may affect the independence of Earnest and Young in respect of the audit of OK Ltd, and for each threat explain how it may be reduced.

(10 marks)

[Total: 25 marks]

Question Two

- a. Explain the importance of the various types of auditors to any community. **(10 marks)**
- b. Describe in detail the fundamental principles of the auditing theory. **(15 marks)**

[Total: 25 marks]

Question Three

With the aid of examples, explain the following components of an internal control environment:

- a. The control environment **(5 marks)**
- b. The entity's risk assessment process **(5 marks)**
- c. The information system, including the related business processes, relevant to financial reporting, and communication. **(5 marks)**
- d. Control activities. **(5 marks)**
- e. Monitoring of controls. **(5 marks)**

[Total: 25 marks]

Question Four

Citing the relevant International Standards on Auditing, explain the audit process in detail.

[Total: 25 marks]

End of Paper