

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B.COM ACCOUNTING

COURSE: AUDITING THEORY AND PRACTICE

COURSE CODE: CAC204

DURATION: 3 HOURS

12 JUNE 2018

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

Day-to-day internal controls are important for all businesses to maximize the efficient use of resources and profitability.

Your firm has recently been appointed as auditor to Chisango, a private company that runs a chain of small supermarkets selling fresh and frozen food, and canned and dry food. Chisango has very few controls over inventory because the company trusts local managers to make good decisions regarding the purchase, sale and control of inventory, all of which is done locally. Pricing is generally performed on a cost-plus basis.

Each supermarket has a stand-alone computer system on which monthly accounts are prepared. These accounts are mailed to head office every quarter. There is no integrated inventory control, sale or purchasing system and no regular system for inventory counting. Management accounts are produced twice a year.

Trade at the supermarkets has increased in recent years and the number of supermarkets has increased. However, the quality of staff that has been recruited has fallen. Senior management at Cliff are now prepared to invest in more up-to-date systems

Required:

- a. Clearly outline why internal control is important to organization. (5 marks)
- b. Describe the problems that you might expect to find at Chisango resulting from poor internal controls. (8 marks)
- c. Make recommendations to the senior management of Chisango for the improvement of internal controls, and explain the advantages and disadvantages of each recommendation. (12 marks)

[Total: 25 marks]

Question Two

ISA 500 *Audit Evidence* (Revised) states that management implicitly or explicitly makes assertions relating to the various elements of financial statements including related disclosures. Auditors may use three categories of assertions to form a basis for risk assessments and the design and performance of further audit procedures. The three categories suggested by ISA 500 relate to (i) classes of transactions, (ii) account balances, and (iii) presentation and disclosure. One assertion applicable to all three categories is *completeness*: that all transactions, events, assets, liabilities, equity interests and disclosures that should be included, are included in the financial statements.

Required:

List and describe all financial statement assertions used by auditors in the audit of financial statements, applying relevant examples.

Question Three

[Total: 25 marks]

'Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a member's compliance with the fundamental principles. A circumstance may create more than one threat and a threat may affect compliance with more than one fundamental principle.'

Required:

- a. List and explain the threats to the audit principles (10 marks)
- b. Clearly outline the three classes of safeguards to these threats. (15 marks)

[Total: 25 marks]

Question Four

'The chief purpose of conducting and audit is to enable an audit to express an opinion on the financial opinion which is done by carrying out audit procedures. These audit procedures are jointly known as the audit process.'

Required:

Describe the audit process in detail, clearly explaining each stage.

[Total: 25 marks]

End of Paper