



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** : CAC204  
**COURSE TITLE** : AUDITING THEORY AND PRACTICE  
**DURATION** : 3 Hours  
**DATE** : 29 May 2019

**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

You are the audit manager of Charlie Bee & Co and you are planning the audit of Ruet Financials Co (Ruet), who specialise in the provision of loans and financial advice to individuals and companies. Charlie Bee & Co. has audited Ruet for many years. The directors are planning to list Ruet on a stock exchange within the next few months and have asked if the engagement partner can attend the meetings with potential investors. In addition, as the finance director of Ruet is likely to be quite busy with the listing, he has asked if Charlie Bee & Co can produce the financial statements for the current year.

During the year, the assistant finance director of Ruet left and joined Charlie Bee & Co as a partner. It has been suggested that due to his familiarity with Ruet, he should be appointed to provide an independent partner review for the audit. Once Ruet obtains its stock exchange listing it will require several assignments to be undertaken, for example, obtaining advice about corporate governance best practice. Charlie Bee & Co is very keen to be appointed to these engagements, however, Ruet has implied that in order to gain this work Charlie Bee & Co needs to complete the external audit quickly and with minimal questions or issues. The finance director has informed you that once the stock exchange listing has been completed, he would like the engagement team to attend a weekend away at a luxury hotel with his team, as a thank you for all their hard work. In addition, he has offered a senior member of the engagement team a short-term loan at a significantly reduced interest rate.

- (a) Explain **eight** ethical threats which may affect the independence of Charlie Bee & Co.'s audit of Ruet Financials Co. **(8 marks)**
- (b) For the ethical threats identified above (in part (a)), state safeguards that you might use to mitigate them. **(8 marks)**
- (c) An auditor can only accept a gift when it is modest. Explain this statement. **(2 marks)**

**[Total: 20 marks]**

### Question Two

*ISA 210: Engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and the scope of the audit and the extent of the auditor's responsibilities to the client and the form of any reports.*

#### Required:

- a) Explain the nature and role of the engagement letter. (6 marks)
- b) Explain why it is important for the auditor to discuss the contents of the engagement letter at an early stage of an audit. (6 marks)
- c) List and explain circumstances in which an engagement letter is sent or written. (8 marks)

[Total :20 marks]

### Question Three

- a) *ISA 300: Planning an Audit of Financial Statements* states that the auditor should plan the audit work so that the audit will be performed in an efficient and effective manner.

#### Required:

Which critical areas should an auditor take into consideration during the planning stage in order to make the audit efficient and effective? (10 marks)

- b)
  - i. Identify and explain **FOUR** financial statement assertions relevant to account balances at the year end. (5 marks)
  - ii. For each identified assertion, describe a substantive procedure relevant to the audit of year-end inventory. (5 marks)

[Total: 20 marks]

#### Question Four

- a) *ISA 700: The Auditor's Report on Financial Statements* requires that an auditor makes a clear expression of opinion on the financial statements audited.

Explain the following types of audit reports:

- i. An unqualified report opinion; (5 marks)
- ii. An unqualified with a modification; (5 marks)
- iii. An adverse opinion; (5 marks)
- iv. A disclaimer of opinion. (5 marks)

[Total: 20 marks]

#### Question Five

- a) In terms of the Companies Act (Chapter 24:03) Section 150, briefly explain two instances in which an auditor is appointed by the directors. (4 marks)
- b) State any five (5) persons who are disqualified for appointment as auditor in terms of the Companies Act (Chapter 24:03) and give the reasons for their disqualification. (6 marks)
- c) Briefly explain the auditor's rights as provided in the Companies Act (Chapter 24:03) which are meant to protect the auditor in carrying out statutory audit work. (6 marks)
- d) Explain any two (2) duties of auditors as enshrined in the Companies Act (Chapter 24:03) which enhances their statutory audit work. (4 marks)

[Total: 20 marks]

**THE END**