

ZIMBABWE EZEKIEL GUTI UNIVERSITY



FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING AND FINANCE
AUDITING THEORY AND PRACTICE (CAC204)

PROGRAMME:
BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING (HACC)

TIME: 3 HOURS

29 NOVEMBER 2018

INSTRUCTIONS

1. Answer all questions.
 2. Start each question on a new page of your answer sheet.
 3. No cell phone is allowed in the examination room.
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Question 1

- 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]

Question 2

- a) Highlight the major differences between internal and external audit functions in terms of objectives, scope, approach, responsibility, reporting structure, etc. **(10 marks)**
- b) The internal audit function can possibly face some challenges in executing their duties. Discuss some of these challenges and mitigating ways thereon. **(6 marks)**
- c) Briefly explain the advantages of outsourcing an internal audit function. **(4 marks)**

[Total 20 marks]

Question 3

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

- a) Explain the two circumstances under which an auditor may find it necessary to qualify an audit opinion. **(4 marks)**
- b) Clearly explain and distinguish what each of the following audit opinions means and the nature of circumstances under which it is applicable:
 - i. Unqualified audit opinion **(4 marks)**
 - ii. Unqualified audit report with a modification **(4 marks)**
 - iii. Adverse audit opinion **(4 marks)**
 - iv. Disclaimer audit opinion **(4 marks)**

[Total 20 marks]

Question 4

- a) (i) Identify and explain FIVE 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)**
- b) Audit evidence may be obtained by one or more of the following techniques:
- Observation;
 - Inspection;
 - Computations;
 - Analytical procedures;
 - Tracing.

Required:

Briefly explain what each of the above techniques involves, giving examples of its use during the course of an audit, stating clearly in each example the purpose of carrying out the procedure. **(10 marks)**

[Total 20 marks]

Question 5

You are a manager in the audit firm of Charlie & Co; and this is your first time you have worked on one of the firm's established clients, Nash Co. The main activity of Nash Co. is providing investment advice to individuals regarding saving for retirement, purchase of shares and securities and investing in tax efficient savings schemes. Nash Co. is regulated by the relevant financial services authority. You have been asked to start the audit planning for Nash Co., by Mr. Tee, a partner in Charlie & Co. Mr. Tee has been the engagement partner for Nash Co., for the previous nine years and so has excellent knowledge of the client. Mr. Tee has informed you that he would like his daughter Rue to be part of the audit team this year; Rue is currently studying for her first set of fundamentals papers for her Chartered Accountant qualification. Mr. Tee also informs you that Mr. Chinya, the audit senior, received investment advice from Nash Co. during the year and intends to do the same next year.

In an initial meeting with the finance director of Nash Co., you learn that the audit team will not be entertained on Nash Co.'s yacht this year as this could appear to be an attempt to influence the opinion of the audit. Instead, he has arranged a balloon flight costing less than one-tenth of the expense of using the yacht and hopes this will be acceptable. The director also states that the fee for taxation services this year should be based on a percentage of tax saved and trusts that your firm will accept a fixed fee for representing Nash Co. in a dispute regarding the amount of sales tax payable to the taxation authorities.

Required:

- (a) Explain the ethical threats which may affect the audit of Nash Co. (10 marks)
- (b) For each ethical threat, discuss how the effect of the threat can be mitigated. (5 marks)
- (c) What is professional skepticism? (5 marks)

[Total 20 marks]

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