



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC204
COURSE TITLE : AUDITING THEORY AND PRACTICE
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 2.1
DATE : 15 NOV 2019

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 []

SECTION A

EACH QUESTION CARRIES 2 MARKS

Q1. The main objective of an audit is to

- A. certify financial statements
- B. detect and prevent fraud and error
- C. expression of opinion
- D. check compliance with laws

Q2. Financial Statements are the representations of

- A. the auditor
- B. the board
- C. professional body
- D. management

Q3. Which of the following persons are not disqualified from appointment as auditors

- A. body corporate
- B. servant of the company
- C. employee of the servant of the company
- D. none of the above

Q4. Which of the following is not a right of the auditor in accordance with the Companies Act 24:03

- A. access at all times to the books, accounts, vouchers and securities of the company
- B. access to all current and former accounts of any company subsidiary thereto
- C. to give an audit opinion on the books reviewed during the audit process
- D. to be heard at any general meeting which the auditor attends

Q5. Which of the following is not the purpose of the engagement letter

- A. To define the auditor's responsibilities
- B. To define the client's responsibilities
- C. To minimize misunderstandings between the auditor and the client
- D. To decide on whether the auditor is competent

Q6. When is an engagement letter sent?

- A. When there is need to remind the client of the existing terms of engagement.
- B. When there is a significant change in the nature or size of the client's business.
- C. To meet legal requirements.
- D. All of the above

Q7. Which of the following is not a reason why auditors need codes of ethics

- A. To maintain respect and confidence of public
- B. To distinguish the professional from the general public
- C. To maintain order within the profession and provide guidance to professionals
- D. None of the above

Q8. All of the following are examples of fundamental principles of ethics except

- A. Integrity
- B. Professional scepticism
- C. Professional competence and due care
- D. Confidentiality

Q9. Disclosure of confidential information is permitted when

- A. Disclosure is permitted by law and is authorised by the client or employer
- B. Disclosure is required by law
- C. There is professional duty or right to disclose confidential information about a client
- D. All of the above

Q10. The audit engagement letter, generally should include a reference to each of the following except

- A. type of audit opinion to issued
- B. responsibilities of the management
- C. the scope of the engagement
- D. responsibilities of the auditor

Q11. The risk that the auditor will not detect a material misstatement is

- A. control risk
- B. inherent risk
- C. expected misstatement
- D. none of the above

Q12. Audit documentation is the property of

- A. the client
- B. the auditor
- C. both the client and the auditor
- D. the audit committee

Q13. Knowledge of the client's business will not help the auditor to

- A. identify problems
- B. reduce inherent risk
- C. evaluate audit evidence
- D. provide better service to the client

Q14. Which of the following factors would indicate that there is a higher possibility of fraud occurring for a client

- A. There is no segregation of duties
- B. The entity is involved in a high-technology industry
- C. An audit committee is introduced
- D. There are no related parties

Q15. During the audit of accounts receivable, an auditor obtains sufficient appropriate evidence in support of the existence assertion. This evidence can be used to support which of the following assertions in respect of sales?

- A. Occurrence
- B. Existence
- C. Cut-off
- D. Completeness

[Total 30 marks]

SECTION B

QUESTION 1

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 2

- 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 3

Muti Co. manufactures custom made furniture and its year end is 30 April. The company purchase its raw materials from a wide range of suppliers. Below is description of Muti's purchasing system

