



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC404
COURSE TITLE : ADVANCED THEORY AND PRACTICE OF AUDITING 1
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 4.1
DATE :

Printed

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 in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []

SECTION A

Answer all questions in this section. Each question carries 2 marks.

Select the most appropriate answer

1. Possible indications of the existence of irregularities include the following except:
 - A. Missing vouchers or documents
 - B. Falsified documents
 - C. Absence of investment policy
 - D. Evidence that internal control is not operating as it is intended

2. Which of the following is not a major cause of failure in the planning process
 - A. Starting work before finishing planning
 - B. Inadequate documentation
 - C. Lack of understanding of the business
 - D. None of the above

3. The appropriateness of audit evidence can be enhanced by the following except
 - A. Independence of provider
 - B. Effectiveness of client's internal controls
 - C. Nature of the client industry
 - D. Qualification of provider

4. Professional skepticism requires that the auditor assumes that management is
 - A. Reasonably honest
 - B. Neither honest or dishonest
 - C. Not necessarily honest
 - D. Dishonest unless proved otherwise

5. The IFAC Code of Ethics recognizes that the objectives of the accountancy profession are:
 - A. To work to the highest standards of professionalism
 - B. To attain the highest level of performance
 - C. Generally, to meet the public interest requirement set out
 - D. All of the above

6. All of the following are safeguards created by the audit profession except
 - A. Educational, training and experience requirements for entry into the profession
 - B. Continuing education requirements

- C. Allocation of complex tasks to competent audit firms
- D. Professional standards and monitoring and disciplinary processes

7. Which of the following is NOT a statutory right of the auditors of a limited liability company?

- (1) A right to attend all directors' meetings and receive all notices and communications relating to such meetings.
- (2) A right to speak at general meetings on any part of the business that concerns them as auditors.
- (3) A right to attend any general meeting and receive all notices and communications relating to such meetings.

- A (1) only
- B (1) and (3)
- C (2) only
- D (2) and (3)

8. The PRIMARY purpose of an auditor evaluating and testing the internal controls of a limited liability company, is to enable the auditor to advise management of the deficiencies in the internal controls.

Is this statement true or false?

- A True
- B False

9. 'Audit risk' represents the risk that the auditor will give an inappropriate opinion on the financial statements when the financial statements are materially misstated. Which of the following categories of risk can be controlled by the auditor?

Category of risk:

- (1) Control risk
- (2) Detection risk
- (3) Sampling risk

A (1) and (2)

B (2) only

C (1) and (3)

D (2) and (3)

10. Which of the following should be facilitated by the standardisation of substantive procedure working papers?

(1) Meeting of specified audit objectives.

(2) Communicating with the staff of the audit client.

(3) Delegation of audit work.

A (1) only

B (1) and (3)

C (2) and (3)

D (3) only

11. Which of the following types of internal controls does a small limited liability company normally have particular difficulty in implementing satisfactorily?

(1) Segregation of duties.

(2) Performance reviews.

(3) Information processing.

A (1) only

B (2) only

C (3) only

D (1) (2) and (3)

12. Which of the following is not a threat to auditor's independence

A. Familiarity

- B. Self-interest
 - C. Self-actualisation
 - D. Self-review
13. Fraudulent financial reporting may be accomplished by the following except
- A. Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared
 - B. Misrepresentation in, or intentional omission from, the financial statements of events, transactions or other significant information
 - C. Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation or disclosure
 - D. None of the above
14. Which of the following is not a stage in the audit process
- A. Planning
 - B. Responding to assessed risks
 - C. Gathering audit evidence
 - D. Preliminary
15. Which of the following is not a component of internal controls
- A. The control environment
 - B. The entity's risk assessment process
 - C. Physical access controls
 - D. Control activities

[Total: 30 marks]

SECTION B

Answer all questions in this section

Question One

You have been asked to provide an accountant's report for an audit client, Chimedza Ltd, which intends to list on the Zimbabwe Stock Exchange in December 2021.

Chimedza Ltd has been an audit client of Matimba & Co for the last eight years, preparing financial statements to 31 December each year. Throughout this period, the managing partner at your firm, Francis Shiri, has taken personal responsibility for the audit and has increased the total fee income from the client to the level where it represented 16.2% of Matimba & Co's total fee income in 2020 (15.4%: 2019). In addition to performing the annual audit, Matimba & Co also provides accounting and bookkeeping services for Chimedza Ltd.

The accounting and bookkeeping services include the preparation of the monthly payroll for the client and maintaining all of the financial records of a small, immaterial division of the company.

The managing director of Chimedza Ltd, Margaret Huni, has asked your firm for assistance in the preparation of the share prospectus document which will be used to support the company's flotation. The contents of the prospectus document will include the following elements:

- Key historical financial information prepared to 31 December 2020;
- Profit forecasts;
- A summary of the key risks relating to the client's business; and
- A business plan outlining the future prospects of the company and recommending the shares to investors.

Margaret Huni has asked if Matimba & Co can also provide an accountant's report which will be included in the prospectus and which will cover each of these elements.

Chimedza Ltd is also currently reviewing the audit appointment and is looking for an audit firm which is capable of taking it through the listing process and providing a full range of services in the future.

Required:

Comment and recommend on the ethical and professional issues arising as a result of Chimedza Ltd's planned listing and the services which it has requested from Matimba & Co. [25 marks]

[Total 25 marks]

Question Two

(a) Auditors have various duties to perform in their role as auditors, for example, to assess the truth and fairness of the financial statements.

Briefly explain the auditor's rights as provided in the Companies and Other Companies Act (Chapter 24:31) which are meant to protect the auditor in carrying out statutory audit work.

[10 marks]

(b) In order to achieve the objectives of the accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles.

Describe the SIX fundamental ethical principles that guide the audit profession [15 marks]

[Total:

25marks]

Question Three

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

REQUIRED

(a) Which critical areas should an auditor take into consideration during the planning stage in order to make the audit efficient and effective? [5 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]

c) Define what is meant by Audit risk and materiality and briefly explain their relationship [5 marks]

[Total: 20 marks]

END OF EXAMINATION QUESTION PAPER