



**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 (3)**

**COURSE CODE** : CAC408  
**COURSE TITLE** : ADVANCED AUDITING THEORY AND PRACTICE II  
**SPECIAL REQUIREMENTS** :  
**DURATION** : 3 Hours  
**LEVEL** : 4.2  
**DATE** : 12 NOV 2019

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Answer **ALL FOUR (4)** 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 1

E-business relates to the use of information technology to conduct business between buyers and sellers. E-business is transforming the economy, within and across geographic and sector boundaries, creating new markets and changing existing ones, thus creating new dimension for auditing.

Required:

- (a) State the components of EDI (4)
- (b) Describe the effect of electronic data communication on auditing (16)
- (c) Describe the advantages of using EDI (5)

**[Total: 25 Marks]**

### Question 2

A new client of your practice, Peter Lawrence, has recently been made redundant. He is considering setting up a residential home for elderly people, as he is aware that there is an increasing need for this service with an ageing population (more people are living to an older age). He has seen a large house, which he plans to convert into an old people's home. Each resident will have a bedroom, there will be a communal sitting room and all meals will be provided in a dining room. No long-term nursing care will be provided, as people requiring this service will either be in hospital or in another type of accommodation for the elderly.

The large house is in a poor state of repair, and will require considerable structural alterations (building work), and repairs to make it suitable for an old people's home. The following will also be required.

- New furnishings (carpets, beds, wardrobes and so on for the resident's rooms; carpets and furniture for the sitting room and dining room)
- Decoration of the whole house (painting the woodwork and covering the walls with wallpaper)
- Equipment (for the kitchen and for helping disabled residents)

Mr Lawrence and his wife propose to work full time in the business, which he expects to be available for residents six months after the purchase of the house. Mr Lawrence has already

obtained some estimates of the conversion costs, and information on the income and expected running costs of the home.

Mr Lawrence has received about \$30,000 from his redundancy. He expects to receive about \$30,000 from the sale of his house (after repaying his house loan). The owners of the house he proposes to buy are asking \$50,000 for it, and Mr Lawrence expects to spend \$50,000 on conversion of the house (building work, furnishing, decorations and equipment).

Mr Lawrence has prepared a draft capital expenditure forecast, a profit forecast and a cash flow forecast which he has asked you to check before he submits them to the bank, in order to obtain finance for the old people's home.

### **Required**

Describe the procedures you would carry out on:

- (a) The capital expenditure forecast (8)
- (b) The profit forecast (8)
- (c) The cash flow forecast (9)

**[Total: 25 Marks]**

### **Question 3**

Becher is an independent construction company, dealing with large scale contracts throughout the UK and with some international interest in Europe, particularly in Spain. Becher has recently established an Audit Committee, the members of which are very concerned about meeting corporate governance 'best practice', particularly since they are currently looking at the possibility of obtaining a stock exchange listing.

You are an internal auditor with the company and have been asked to conduct a review of how well the company is meeting relevant corporate governance requirements.

You are required to prepare a report that addresses the following.

- (a) What is meant by 'corporate governance' and why is it important that companies should comply with relevant corporate governance requirements? (6)

- (b) What are the key issues for Becher to address to achieve effective corporate governance? (5)
- (c) What is the role of the Audit Committee in relation to corporate governance? (6)
- (d) List the types of regular reporting that would be useful for Becher in the context of establishing sound corporate governance. (5)
- Professional marks (3)

[Total: 25 Marks]

#### Question 4

- a). ISA 500 Audit Evidence explains types of audit evidence that the auditor can obtain.

**Required:**

State, and briefly explain, four types of audit evidence that can be obtained by the auditor. (8)

- (b). ISA 700 The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements explains the form and content of audit reports.

**Required:**

State three ways in which an auditor's report may be modified and briefly explain the use of each modification. (6)

- c). ISA 210 Terms of Audit Engagements explain the content and use of engagement letters.

**Required:**

State SIX items that could be included in an engagement letter. (6)

- d). In terms of ISA300, the audit plan must contain a description of the nature, timing and extent of planned risk assessment procedures sufficient to assess the risk of material misstatements. Audit is a combination of inherent risk, control risk and detection risk. The auditor must there evaluate the materiality and risks specific to the company. Materiality limits

should be set at the planning stage of the audit to act as a guideline for deciding whether adjustments should be made to the financial statements.

**Required**

Briefly describe the terms 'inherent risk', 'control risk', 'detection risk' and 'audit risk'

(5)

[Total: 25 Marks]

**THE END**