

ZIMBABWE EZEKIEL GUTI UNIVERSITY



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

ADVANCED THEORY AND PRACTICE OF AUDITING II (CAC408)

PROGRAMME:

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

TIME: 3 HOURS

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

You are the manager on the audit of Kaygee (Pvt) Ltd, a wholesale toy distributor. Your firm took over the audit for the first time this year and you are presently evaluating the internal controls over the sales order entry and dispatch system. You have obtained the following information:

- 1) All accounting systems are computerised.
- 2) Orders are received from customers by phone only.
- 3) The computer does not make cash sales.
- 4) All orders are put through to Kgotso Mpabanga, who after informing the customer of the price at which the order is taken, enters them directly into the system. He does not perform a stock availability enquiry at the time the order is placed. The directors acknowledge that this may lead to customer dissatisfaction but they argue that it is less important than losing a sale.
- 5) Mpabanga is linked from his office via a terminal to the minicomputer situated in the data processing department.
- 6) When an order is received it is entered via the terminal onto an "orders pending file" at which time it is given a sequential number, and a cross referenced computer generated picking slip is printed out in the stores department.
- 7) Stores employees make up the orders from the picking slip and pass the goods picked with the picking slip to the despatch controller.
- 8) The despatch controller checks the goods to the picking slip and on his terminal enters the quantities of the items actually picked against the relevant order on the "orders pending file".
- 9) Where the quantity to be delivered is less than the order quantity, the difference is automatically written to a "back order" file.
- 10) As goods are received into stock, the computer automatically reads the back order file and generates picking slips for those back orders for which the product has become available.
- 11) The computer prints a delivery note and invoice for the actual quantity to be despatched.

REQUIRED

(a) Identify the application controls which you would expect in the sales ordering system of Kaygee (Pvt) Ltd, to ensure that orders received are valid, accurately recorded and complete.

(20 Marks)

(b) Identify the controls which you would expect to find to ensure that all orders taken result in despatched which are accurate, valid and complete **(20 Marks)**

Question 2

BEE is a multinational firm of accountants. Their managing partner has been requested to appear in court in connection with one of their largest clients, BV, a public limited company. BEE carry out the audit and tax work for BV. BV is being investigated for a possible tax fraud, which was linked to the establishment of a secret fund designed to make political contributions. The funds were maintained in a foreign bank, TBL, which was also a client of the audit firm. The existence of the fund had been discovered by the managing partner during the audit of the overseas bank.

The judge had ordered that the audit and tax working papers of BV be submitted to the court. However, the managing partner of BEE had refused to submit the tax working papers of BV and copies of letters between BV and their solicitors on the grounds that they contained confidential information that would be damaging to their client.

The BEE manager in charge of the tax affairs of BV was disturbed by the managing partner's actions and felt that they were ethically wrong as the tax working papers proved that BV was guilty of fraud and he refused to carry on acting for BV. He decided that he was going to submit the tax working papers to the court without the managing partner's due authority.

Required:

(a) Explain how the audit firm should have dealt with the discovery of the existence of the 'secret fund'. **(8 marks)**

(b) Discuss whether the managing partner of BEE was justified on the grounds of confidentiality in not providing the court with all the working papers of BV. **(6 marks)**

(c) Discuss the position of the tax manager if he submits the tax working papers to the court against the partner's wishes. **(6 marks)**

(Total: 20 marks)

Question 3

You are reviewing the work of your Audit Assistant on the audit file of Two to Six Ltd. She has been learning about the audit report and the importance of understandability for users. As a training exercise, you allowed her to draft the "Basis of Opinion" paragraph and the "Opinion" paragraph of the audit report for the client for the year ended 31 March 2010. You had informed her that it was likely that the report would be qualified due to uncertainty about the valuation of inventory (which included development properties) in the current year. She has drafted the following:

BASIS OF AUDIT OPINION

We conducted our audit in accordance appropriate Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of all the estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from error, whether caused by fraud or otherwise. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Acts 1963 to 2009, except for the fact that, in the current economic climate we cannot be sure of the valuation placed on inventory because some of it consists of development properties which are now difficult to sell. We have obtained all of the information and explanations that we consider necessary for the purpose of our audit. In our opinion, proper books of account have been kept by the company and the financial statements are materially in

agreement with the books of account. The information given in the Directors' Report is consistent with the financial statements.

REQUIRED:

(a) Identify and explain why these paragraphs of the Audit Report will not be appropriate to present to the members of Two to Six Ltd.

[NB: For the purpose of the question assume that the going concern status of the company is not considered to be in question.] (15 marks)

(b) Evaluate the "understandability" of the standard wording of the Audit Report for the non-specialist user of statements. (5 marks)

Question 4

(a) Explain the need for laws, regulations and other guidance relating to audit (12 marks)

(b) Explain the auditors consideration for compliance with laws and regulation and plan audit procedures when possible non compliance is discovered (8 marks)

*****THE END*****