



# MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

**FACULTY OF AGRIBUSINESS MANAGEMENT AND APPLIED SOCIAL SCIENCES**

**DEPARTMENT: APPLIED ACCOUNTING SCIENCES**

**MODULE NAME: ADVANCED AUDITING**

**MODULE CODE: ACCT 425**

**SESSIONAL EXAMINATIONS**

**APRIL 2024**

**DURATION: 3 HOURS**

**EXAMINER: MR L MUDZENGERERE**

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## *INSTRUCTIONS*

- 1. Answer **All** questions*
- 2. This question paper contains 5 questions*
- 3. Each question carries 20 marks*

***Additional material(s): Non-programmable calculators***

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**Question 1 [20 marks]**

- a. “Quality control policies and procedures should be implemented at both the level of the audit firm and on individual audits”. [ISA 220 *Quality Control for an Audit of financial information*].

**Required**

Explain the nature and explain the purpose of quality control procedures apt to the individual audit. (7 marks)

- b. As a trainee auditor you are the manager responsible for the quality of the new audits’ clients of Signet, a company of Chartered certified accountants. As the manager you are visiting the audit team comprises of Artur Bois (audit supervisor), Carla Davini (audit senior) and Errol Flyte and Gavin Holst (trainees). The company provides food hygiene services which include the evaluation of contamination, carrying out bacteriological tests and providing advice on health regulations and waste disposal’  
Agnesal principal customers include food processing companies, wholesale fresh food markets (meat, fish, and dairy products) and bottling plants. The draft accounts for the year ended 31 December 2013 show turnover \$19.8 million (2012 \$13.8 million) and total assets 6.1 million (2012 \$ 4.2 million).

The following are summaries of the findings and reviews of audit working papers relating to the audit of the financial statements for the year to 32 December 2013 as follows:

1. Against the analytical procedures section of the audit planning checklist, Carla has written “not applicable to new client”. The audit planning checklist has not been signed off as having been reviewed by Autur.
2. Autur is currently assigned to three other jobs and is working from Signet’s office. He last visited Agnesal’s office when the final audit commenced two weeks ago. In the meantime, Carla has completed the audit of tangible noncurrent assets (including property and service equipment) which amount to \$1.1 million as at December 2013 (2012 \$1.1 million)
3. Errol has just finished sending out the requests for confirmation of accounts receivable balances as at 31 December 2013 when trade accounts receivables amounted to \$ 3.5 million (2012 \$ 1.6 million).
4. Agnesal’s purchase clerk, Jules Java, keeps \$2500 cash to meet sundry expenses.

The audit program shows that counting it is “outstanding”. Carla has explained that when Gavin was sent to count it, he reported back, two hours later, that he had not done it because it had not been convenient to Jules. Gavin had, instead, been explaining to Errol how to extract samples using value weighted selection. Although Jules had later announced that he was ready to have his cash counted, Carla decided to postpone it until later in the audit. This is not documented in the audit working papers.

5. Errol has been assigned to the audit of inventory (comprising of consumables supplies) which amounts to \$150 000 (2012 \$ 90 000). Signet was not appointed as auditor until after the year-end physical count. Errol has therefore carried out tests of controls over purchases and issues to confirm the “roll back” of a sample of current quantities ton quantities at the year-end count.
6. Agnesal has drafted its first “*report to society*” which contains health, safety and environmental performance data for the year to 31 December 2013. Carla has filed it with the comment that it is “to be dealt with when all other information for inclusion in the company’s annual report is available”.

Required:

Identify and comment on the implications of these findings for Signet’s quality control policies and procedures. (18 marks)

### **Question 2 [20 marks]**

As a manager responsible for prospective new audit clients, you have received a telephone call from an acquaintance of a client. The caller, Richard Stone, has asked for your assistance concerning Valda Co, a supplier of electrical alarm equipment. The Valda company business has boomed over the last two years due to reported increasing crimes rates. Turnover has nearly doubled and the company is very profitable.

Mr Stone asks you for an estimate of the cost of a “cheap and cheerful” review of the company’s accounting information systems and internal controls and of a new computer installation. The new computer is to be supplied next month, by R S Office Equipment, subject to board approval. He suggests that you could spent a few days looking at the systems, flowcharts and documentation. He wants advice that could be significant ton the board’s decision to adopt his proposals.

Required:

- a. Identify and comment on the issues raised as they affect your decision to gain the business. (10 marks)
- b. State what procedures you would adopt to clarify and agree the basis on which your firm would undertake this work. (10 marks)

**Question 3 [20 marks]**

- a. Discuss the implications of the external auditor providing an internal audit service to a client, explaining the current ethical guidance on the provision of other services to client. (12 marks)
- b. Explain the term “due care and professional competence” and outline how can audit firms ensure that the principle is complied with. (8 marks)

**Question 4[20 marks]**

- a. Explain how an audit committee can improve auditors’ work. (10 marks)
- b. Discuss the problems of ensuring the “independence” of members of the audit committee where the membership is regulated by a voluntary code of practice. 5 marks)
- c. Discuss the assertion that “the role of audit committee should not be left to voluntary codes of practice but should be regulated by the law in all countries. (5 marks)

**Question 5 [20 marks]**

- a. Using relevant examples, Explain the reasons for performing analytical procedures as part of risk assessment and discuss the limitations of analytical procedures at the planning stage of the final audit. (15 marks)
- b. Explain and differentiate between the terms “overall audit strategy” and “audit plan”. (5 marks)

**END OF EXAMINATION**