



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 305 AUDIT PRINCIPLES

END OF SECOND SEMESTER COMPETENCE BASED EXAMINATIONS

MAY/JUNE 2020

LECTURER: I. RARAMI

DURATION: (48 Hours)

INSTRUCTIONS

Answer ONE question

The marks allocated to each question are shown at the end of the question

Work must be well spaced.

Credit will be given for presentations that are neat, logical and grammatically well constructed.

QUESTION ONE [30 MARKS]

Madzamba Co sells cars, car parts and petrol from 25 different locations in one country. Each branch has up to 20 staff working there, although most of the accounting systems are designed and implemented from the company's head office. All accounting systems, apart from petty cash, are computerised, with the internal audit department frequently advising and implementing controls within those systems.

Madzamba has an internal audit department of six staff, all of whom have been employed at Madzamba for a minimum of five years and some for as long as 15 years. In the past, the chief internal auditor appoints staff within the internal audit department, although the chief executive officer (CEO) is responsible for appointing the chief internal auditor. The chief internal auditor reports directly to the finance director. The finance director also assists the chief internal auditor in deciding on the scope of work of the internal audit department.

The Chief Executive Officer, was asked by the Board of Directors to justify the existence of the Internal Audit Department. The Board argues that every year there is an external audit and as such the existence of the Internal Audit Department results in duplication of effort and an unnecessary drain of corporate funds.

Required:

- a) Explain what is an audit? **(4 marks)**
- b). Explain the issues which limit the independence of the internal audit department in Madzamba Co. Recommend a way of overcoming each issue. **(8 marks)**
- c). Fraud and error present risks to Madzamba Co. Both internal and external auditors are required to deal with risks in an entity. However, the responsibilities of internal and external auditors in relation to the risk of fraud and error differ.
- i). Explain how the internal audit function at Madzamba Co helps the entity with the risk of fraud and error justifying its existence. **(7 marks)**
- ii). Explain the responsibilities of external auditors at Madzamba Co with respect to the risk of fraud and error in an audit of financial statements. **(7 marks)**
- d) How can the effectiveness of the Internal Audit Department be enhanced? **(4 marks)**

QUESTION TWO [30 MARKS]

You are the Audit Manager of Hard-work accountancy, responsible for the audit of Zvakanaka Stores for the first time, a retail giant with twenty (20) branches throughout the country and a Head Office located in the capital Harare. Previous it was being audited by another accounting firm.

The audit engagement team is predominantly composed of new audit assistants and the Engagement Partner has instructed you to provide guidance to the team on quality control given the low level of experience and expertise among the team members.

You are also aware that Audit Quality has been a topical issue for discussion in the accountancy profession in recent times. The International Auditing and Assurance Standards Board (IAASB) has recently issued a publication on the Framework for Audit Quality. The objectives of this publication are to raise awareness of the key elements of audit quality; to encourage key stakeholders to explore ways to improve audit quality; and to facilitate greater dialogue between key stakeholders on the topic. Although audit quality is principally the responsibility of auditors, there are many factors that contribute to it. The IAASB describes these other factors as contextual, inputs, outputs and key interactions.

Required

State the procedures which you must follow before writing an engagement letter accepting an appointment involving professional work, originally carried out by another accountant and why is it important. **(5 marks)**

What are the evaluation procedures which you should do before accepting a prospective client and offer their approval as a client? **(4 marks)**

What is an engagement letter and what are the principal contents you must include regarding the audit of Zvakanaka Stores? **(5 marks)**

b). Draw up a list of quality control procedures you would adopt that provide guidance to the engagement team in the audit assignment. Pay particular attention to matters of direction, supervision, review and consultation. **(8 marks)**

c). Discuss with examples what factors affect Audit Quality according to the recent publication of the IAASB on Audit Quality. **(8 marks)**

END OF PAPER