



**COLLEGE OF BUSINESS, PEACE, LEADERSHIP &
GOVERNANCE**

MAC 305 AUDIT PRINCIPLES

END OF SECOND SEMESTER EXAMINATIONS

NOVEMBER/DECEMBER 2019

LECTURER: I. RARAMI

DURATION: (3 HRS)

CONVENTIONAL

INSTRUCTIONS

Answer ALL questions

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

Start each question on a new page.

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

QUESTION ONE [20 MARKS]

You are a manager in the audit firm of Rais & Company, and this is your first time you have worked on one of the firm's established clients, Make Money Make Sense Company. The main activities of MMMS Company is providing investment advice to individuals regarding saving for retirement, purchase of shares and securities and investing in tax efficient savings schemes. MMMS company is regulated by the relevant financial services authority.

You have been asked to start the audit planning for MMMS Co, by Mr Son, a partner in Rais & Company. Mr Son has been the engagement partner for MMMS Company for the previous nine years and so has excellent knowledge of the client. Mr Son has informed you that he would like his daughter Tapitapi to be part of the audit team this year. Papitapi is currently studying for her first set of papers for her accounting qualification. Mr Son also informs you that Mr Munya, the audit senior, received investment advice from MMMS Company during the year and intends to do the same next year.

In the first meeting with the finance director of MMMS Co, you learn that the audit team will not be entertained on MMMS Coy's yacht this year as this could appear to be an attempt to influence the opinion of the audit. Instead, he has arranged a balloon flight costing less than one -tenth of the expenses of using the yacht and hopes this will be acceptable. The director also states that the fee for taxation services this year should be based on a percentage of tax saved and trusts that your firm will accept a fixed fee for representing MMMS Co in a dispute regarding the amount of value added tax payable to the taxation authorities.

Required

- a). Explain the ethical threats which may affect the auditor of MMMS Company, **[6 marks]**
- b). For each ethical threat, discuss how the effect of the threat can be mitigated. **[6 marks]**
- d). State and explain any four fundamental principles of auditing **[8 marks]**

QUESTION TWO [20 MARKS]

You are the Internal Audit Manager of Good Meats (Pvt) Ltd. The Chief Executive Officer, Mr Kombo Kombo 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.

Mr Kombo Kombo wrote a memorandum to you, as Internal Audit Manager, asking for assistance with the preparation of a paper to be presented to the Board. Some of the areas he would like you to cover include the following:

- a) What is an audit? **[1mark]**
- b) The difference between an Internal Audit and an External Audit. **[4 marks]**
- c) Discuss the importance or relevance of the Internal Audit Department. **[10 marks]**
- d) How can the effectiveness of the Internal Audit Department be enhanced? **[5 marks].**

QUESTION THREE [20 MARKS]

You are the Audit Manager of Hard-work accountancy, responsible for the audit of Zvakanaka Stores, a retail giant with twenty (20) branches throughout the country and a Head Office located in the capital Harare.

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.

Required

- a). Explain the reasons why quality control is very essential in the administration and conduct of an audit. **[3 marks]**
- b). State clearly what can be considered when evaluating the integrity of the client to be audited. **[5 marks]**

c). 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.

[12 marks]

QUESTION FOUR [20 MARKS]

a).i) Why is it important for the existing accountant and the proposed accountant to communicate? **[3 marks]**

ii) Nyakudya Nyakudya was auditing Muzenge Muzenge Holdings, as a new auditor. She discovered that the managers and staff are not cooperating with her. Some of the policy changes which were recommended in the previous audits were not changed. There are some issues which need some explanation from the previous auditor.

State the procedures which Nyakudya Nyakudya should have followed before accepting an appointment involving professional work, originally carried out by another accountant. **[5 marks]**

b) i). What is an engagement letter? **[2 marks]**

ii). What are the principal contents of an engagement letter? **[5 marks]**

iii). What are the evaluation procedures which a firm should do before accepting a prospective client and offer their approval as a client? **[5 marks]**

QUESTION FIVE [20 MARKS]

The Board of Directors of Tinorarama (Private) Limited have been for sometime considering setting up an audit committee but are not unsure of the advantages, disadvantages and responsibilities of such a committee. The Chief Executive of Tinorarama (Pvt) Ltd Mr Do -Not -Spot who is due to give a presentation to the Board at the next Board Meeting has asked for your assistance on the issue.

a). Explain, what is an audit committee? **[2 marks]**

b). State in point form, the advantages, disadvantages and responsibilities of an audit committee. **[18 marks]**

END OF PAPER