



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 405 ADVANCED AUDITING

END OF SECOND SEMESTER EXAMINATION-hre

APRIL/MAY 2017 (1)

LECTURER: I. RARAMI

DURATION: (3 HRS)

PARALLEL HARARE

INSTRUCTIONS

Answer **All** five (5) questions

Start each question on a new page in your answer booklet.

Each question carries 20 marks

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

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

QUESTION ONE [20 MARKS]

Your firm is the external auditor of Good Luck Company, and you recently attended the year-end inventory count at the company's warehouse. The company manufactures high quality tableware (plates, cups and saucers etc.) and it maintains an integrated computerised system that shows the inventory held at any point in time.

At the year-end inventory count, reports showing the various categories of inventories (but not the quantities) are printed off the system and the quantities of inventories actually counted are inserted annually by the counters. Later the quantities are compared with those per the computer system.

The count instructions were received by both you and the counters the day before the count was due to take place. The instructions consisted of the following five points:

1. Counters must arrive at 8 am on the morning of the count.
 2. They will work in teams of two people.
 3. Each team will be assigned a specific area of the warehouse to count. They will receive inventory sheets listing the products to be found in their area.
 4. The inventory sheets are pre-numbered.
 5. Once the counters have finished the inventory count, the inventory sheets must be handed to the warehouse manager.
- Your notes from the attendance at the count include the following observations:

Many areas in which the count took place were untidy and inventory was sometimes difficult to find because it was not in the allocated area. The same categories of inventories were sometimes found in several different areas and some inventory was incorrectly labelled. The count was conducted in a hurry in order to close the warehouse before a public holiday and there were insufficient counters to conduct the count properly in the time available. The issue and receipt of inventory sheets (on which the quantities were recorded by counters) was not properly controlled. It was difficult to reconcile the inventory quantities recorded at the count to the computerised records and some significant differences remain outstanding. Although no finished goods were dispatched during the inventory count, a large delivery of raw materials was received into the warehouse.

Required:

a) For the inventory count conducted by the Good Luck Company:

- i. Identify and explain FOUR (4) deficiencies in the count.
- ii. Explain the possible implication of each deficiency and
- iii. Provide a recommendation to address each deficiency.

[12 marks]

b) Describe the audit procedures that auditor should perform at the year end to confirm each of the following:

(i) The existence of inventory

[2 marks]

(ii) The completeness of inventory

[3 marks]

(iii) The valuation of inventory.

[3 marks]

QUESTION TWO [20 MARKS]

Gathering audit evidence is an important phase in of the audit process.

a). Why is audit evidence gathering important?

[6 marks]

b). Discuss factors which influence the sufficiency of audit evidence

[5 marks]

c). Discuss the three classes of evidence that must be considered by an auditor.

[6 marks]

d). State and explain briefly six financial assertions that the auditor is concerned with when obtaining evidence during substantive procedures.

[3 marks]

QUESTION THREE [20 MARKS]

List the errors that could occur in the purchase payment cycle, the possible control procedures that should prevent the errors from occurring and the substantive procedures which should detect these errors.

QUESTION FOUR [20 MARKS]

Audit risk is very much closely linked to materiality.

- a). Define materiality [2 marks]
- b). When is the auditor expected to consider materiality? [2 marks]
- c). Define audit risk [2 marks]
- d). What are the three components of audit risk? [3 marks]
- e). Define each of the three components of audit risk. [3 marks]
- f). Briefly discuss how the risk and materiality are inversely related and how it impacts on the audit procedures. [2 marks]
- g). Explain how an auditor will reduce his audit risk. [2 marks]
- h). List four factors which influence the auditor's assessment of materiality and audit risk. [4 marks]

QUESTION FIVE [20 MARKS]

- a). Define expectation gap [2 marks]
- b). State and briefly explain the expectation gaps due to:
 - i). External environment of auditing. [6 marks]
 - ii). The auditor [6 marks]
- c). State what the auditor should take into account when establishing the overall audit strategy. [3 marks]
- d). What is risk based internal auditing? [3 marks]

END OF PAPER