



***"Investing in Africa's Future"***

**COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES**

**NMAC208/ NMAC303: AUDIT SKILLS/ AUDIT PRINCIPLES**

**END OF FIRST SEMESTER EXAMINATIONS**

**NOVEMBER 2024**

**LECTURER: N. E CHIRIMA**

**TIME: 3 HOURS**

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**INSTRUCTIONS**

ANSWER **ALL** QUESTIONS on the Africa University answer booklet provided

MARKS ALLOTED TO EACH QUESTION ARE SHOWN

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CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

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## **QUESTION ONE (25 possible marks)**

Mr. Yi has established a popular retail business which has rapidly expanded in Manicaland province, with branches in all the districts. Mr. Yi's grandchild, an upcoming Africa University Bachelor of Health Science Management graduate, advises him to engage a qualified accountant as well as to appoint external auditors for the January 2025 financial year. Mr. Yi is confused and hesitant especially after hearing the salary expectations of a qualified accountant as well as the average audit fee charges by recognized audit firms. On learning that an auditor is an accountant, Mr. Yi questions whether it is necessary to employ an accountant and then engage an auditor – he is wondering why not let the accountant perform the audit. As Mr Yi's grandchild, write a letter to your grandfather explaining your suggestion for employing an accounting and engaging an external auditor. In your explanation, be clear on the following:

- i. Distinguish between accounting and auditing 5 marks
- ii. The need for audits 5 marks
- iii. The risks arising where no audits are carried out 7 marks
- iv. The external audit function 8 marks

## **QUESTION TWO (30 possible marks)**

Below are three (3) cases. Go through each case.

### **Case One**

Shu is a third year accounting university student who has been actively looking for an internship position. Her mother is an audit manager in one of the “top 5” audit firms. Her friends have been encouraging her to talk to her mum to give her and some of them an attachment place. However, she was not keen on working in the same organization as her mum but with each negative or no response to her applications as well as the fact that it is already three months into the attachment year, she became desperate and applied. She has received a favorable response and will be starting work on Monday in the audit department under her mother's supervision.

### **Case Two**

Ku is excited as he has been recently appointed as an acting audit manager. His first assignment in that position is an audit engagement with one of the leading commercial banks in the country. The bank has been the audit firm's client for a number of years consulting on its accounting system as it has been integrating to a new, more

sophisticated and up to date accounting package. The audit firm's accounting consultancy department has a different partner to its audit department. Ku notices that the client has indicated the start day of the audit to be a week before their reporting day; thus audit work is expected to be completed within less than a week. The audit department is currently short staffed as most of the audit assistants are currently writing their Certificate of Theory in Accounting (CTA) exams and have taken study leave. The audit partner has already signed the audit engagement letter and promised the client that the Audit firm will be able to deliver. The partner has also indicated to Ku that there is a possibility of him becoming a substantive audit manager should he satisfactorily complete the audit engagement within the agreed time frame.

### **Case Three**

A vacancy for an internal auditor has arisen in GetWell Medics, a group which owns a number of hospitals, clinics and pharmacies. Three candidates have been shortlisted for the position. As the group's managing director, it has come to your attention that the best of these candidates is currently working for the audit firm with which the company has engaged as its external accounting consultants. The candidate was part of the team that assisted in the group's transition from a manual to an automated accounting system; was actively involved in the selection and implementation of the accounting system as well as training of the accounting department staff. In a social conversation, GetWell Medics' financial accountant highly recommended the candidate as he was the best accounting student in their graduating class. When you asked how the accountant knew about this, you were told that they were classmates.

For each of the three cases, you are required to

- a) Identify the threat present 2 marks
- b) Explain the threat in relation to the case presented 3 marks
- c) Advise on how best the threat can be mitigated 5 marks

(Note total for each case will be 10 marks, for three cases the total will be 30 marks)

### **QUESTION THREE (25 possible marks)**

- a. Differentiate between the terms 'management' and 'corporate governance' 2 marks
- b. With reference to the six pillars of corporate governance, outline the relationship between
  - i. corporate governance and auditing 4 marks

ii. corporate governance and financial reporting 4 marks

c. Explain the following theories of corporate governance:

- i. Stewardship Theory 3 marks
- ii. Agency Theory 3 marks
- iii. Stakeholder Theory 3 marks
- iv. Shareholder Theory 3 marks
- v. Resource Dependency Theory 3 marks

#### **QUESTION FOUR (20 possible marks)**

Primary users' (lenders, creditors and investors) expectations are dynamic and currently emphasis is being placed on sustainability. Outline how the audit profession has adapted and responded to the changes around it while ensuring independence is upheld. 20 marks

**END OF EXAMINATION**