

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**  
**FACULTY OF COMMERCE**  
**DEPARTMENT OF ACCOUNTANCY**

APR 2025

**PROGRAMMES:**

Bachelor of Accountancy Honours Degree  
Bachelor of Business Administration Honours Degree in Police & Security Studies  
Bachelor of Commerce Honours Degree in Financial Intelligence

**AUDITING PRINCIPLES & PROCEDURES I (AC 205)**  
**EXAMINATION PAPER**

**DURATION: 3 HOURS**

**(100 MARKS)**

**INSTRUCTIONS TO CANDIDATES**

1. Answer all questions in Section A and Section B.
  2. All questions in Section A carry Two (2) marks each
  3. Marks for questions in Section B are given in brackets at the end of each question.
  4. Start each question on a new page.
  5. No cell phones are allowed in the examination room.
-

**Section A: Multiple Choice (30 Marks)**

Candidates are required to choose the single most appropriate answer from the following:

- (1) The responsibility for the fairness of the representations made in financial statements is that of:
  - (A) Independent auditor
  - (B) Audit committee
  - (C) Client's management
  - (D) External auditor.
  
- (2) An independent auditor must act without bias in relation to the financial statements of a client to:
  - (A) Comply with the Companies Act
  - (B) Attain the impartiality necessary for an expression of the auditor's opinion
  - (C) Maintain the appearance of separate interests on the part of the auditor and the client
  - (D) Avoid criticism and possible litigation from creditors and stockholders.
  
- (3) Prior to accepting an audit engagement, an incoming auditor should make specific inquiries of the outgoing auditor regarding the outgoing auditor's
  - (A) Understanding as to the reasons why the audit appointment should not be accepted
  - (B) Understanding of all matters of continuing accounting significance
  - (C) Awareness of departure in the application of generally accepted accounting principles over time
  - (D) Update of any subsequent events since the outgoing audit report was issued.
  
- (4) In relation to maintaining its quality-control objectives on assigning personnel to engagements, a firm of independent auditors may use policies and procedures such as

(A) Having for new entrants a recruitment policy that includes minimum standards of academic preparation and accomplishment

(B) Retaining senior qualified personnel to provide advice on accounting or auditing questions for the entire duration of the engagement

(C) Making available to auditing personnel current accounting and auditing literature for research and reference purposes throughout the engagement

(D) Requiring timely identification of the staffing requirements of specific engagements so that appropriate levels of qualified personnel can be allocated.

(5) Roberts & Co., a large international accounting firm, is to have an "external peer review." The peer review will most likely be performed by

(A) Audit review staff of the Institute of Chartered Accountants of Zimbabwe

(B) Employees and partners of Roberts & Co., who are not associated with the particular audits being reviewed

(C) Employees and partners of another firm of chartered accountants

(D) Audit review staff of the Securities and Exchange Commission.

(6) It is the responsibility of an independent auditor to design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. Which of the following, if material, constitutes an irregularity as defined in Statements on Auditing Standards

(A) Mistakes in the application of accounting principles

(B) Clerical mistakes in the accounting data underlying the financial statements

(C) Misappropriation of an asset or groups of assets during the period covered by the audit

(D) Misinterpretation of facts that existed when the financial statements were prepared.

(7) There have been regular discussions on the auditor's responsibility in relation to material errors and irregularities. Which of the following statements best describes the auditor's responsibility regarding the detection of material errors and irregularities

(A) The auditor needs to extend auditing procedures to detect material errors and irregularities if the audit indicates that they may exist

(B) The auditor may be held responsible for the failure to detect material errors and irregularities only when such failure results from the non-application of generally accepted accounting principles

(C) The auditor needs to extend auditing procedures to detect unrecorded transactions even if there is no evidence that material errors and irregularities may exist

(D) The auditor may be held responsible for the failure to detect material errors and irregularities only when the auditor fails to confirm receivables or observe inventories.

(8) If in the course of an audit, an auditor believes that the client may have committed illegal acts, which of the following actions should be taken immediately by the auditor

(A) Extend the planned auditing procedures to ascertain whether the suspected illegal acts may have a material effect on the financial statements

(B) Communicate the findings to members of the audit committee of the board of directors of the nature of the acts and request that they give guidance with respect to the approach to be taken by the auditor

(C) Obtain the client's counsel and the auditor's counsel to determine how the suspected illegal acts will be communicated to the stockholders and other interested parties

(D) Communicate with the client's management and consult with the client's legal counsel or other specialists, as necessary, to obtain an understanding of the nature of the acts and their possible effects on the financial statements.

(9) An auditor would most likely withdraw from an engagement where the client has committed an illegal act when the

(A) Illegal act has material financial statement implications

(B) Illegal act has received widespread publicity

(C) Illegal act affects the auditor's ability to rely on management representations

(D) The auditor cannot reasonably estimate the effect of the illegal act on the financial statements.

(10) In the course of an audit, audit evidence may come in different forms with different degrees of persuasiveness. Which of the following audit evidence is the least persuasive type of evidence

- (A) Vendor's invoice
- (B) Bank statement obtained from the client
- (C) Computations made by the auditor
- (D) Pre numbered sales invoice of client

(11) Which of the following procedures would an auditor most likely rely on to verify management's assertion of completeness

- (A) Compare a sample of vendors' invoices with related purchase orders
- (A) Compare a sample of shipping documents with related sales invoices
- (C) Observe the client's distribution of payroll checks
- (D) Confirm a sample of recorded receivables by direct communication with the debtors.

(12) An example of an analytical procedure is the comparison of

- (A) Computer generated data with similar data generated by a manual accounting system
- (B) Financial information with similar information regarding the industry in which the entity operates
- (C) Results of a statistical sample with the expected characteristics of the actual population
- (D) Recorded amounts of major disbursements with appropriate invoices.

(13) Working papers which record the procedures used by the auditor to gather evidence should be

- (A) Designed to meet the circumstances of the particular engagement
- (B) Considered the primary support for the financial statements being audited
- (C) Destroyed when the audited entity ceases to be a client
- (D) Viewed as the connecting link between the books of account and the financial statements.

(14) The independent auditor's principal reason for understanding the internal control structure is

- (A) To maintain a state of independence in mental attitude in all matters relating to the audit
- (B) To obtain a measure of assurance of management's efficiency
- (C) To comply with generally accepted accounting principles
- (D) To determine the nature, timing, and extent of tests to be performed.

(15) Which of the following is not a typical analytical procedure

- (A) Study of relationships for the financial information with relevant non-financial information
- (B) Comparison of the financial information with similar information regarding the industry in which the entity operates
- (C) Comparison of recorded amounts of major disbursements with appropriate invoices
- (D) Comparison of the financial information with budgeted amounts.

## Section B: 70 Marks

### QUESTION 1

Most large companies have both internal and external auditors.

Required:

- (a) Distinguish between the internal audit and external audit. (4 marks)
- (b) Describe the scope and objectives of internal audit. (4 Marks)
- (c) Explain the criteria employed by the external auditor to assess the likely effectiveness and relevance of the internal audit functions (4 Marks)
- (d) State four areas where the Internal Audit function can be of assistance to the External Audit. (3 Marks)

(Total - 15 Marks)

### QUESTION 2

(a) Clients have an undisputable right to appoint their auditors or choose their professional advisers. They may seek professional advice from even more than one professional accounting firm, as required. However, there are legitimate professional reasons why a professional accounting firm might not wish to accept an appointment as Auditors to a prospective client. Enumerate these reasons. (5 Marks)

(b) Hamzat, Chukwu & Co. a big auditing firm has been appointed Joint auditors to a commercial bank. Some years later, the bank decided to maintain Hamzat, Chukwu & Co as the sole firm of auditors. State the professional duty required of Hamzat, Chukwu & Co. before accepting the appointment on each occasion. (3 Marks)

(c) The Companies Act confers on the auditors the right to require from the officers of a company any information and explanations deemed necessary for the performance of the audit. In addition, the auditor can obtain third party certificates to complement evidence he has obtained.

Required:

- (i) What are third party certificates? (2 Marks)
- (ii) Briefly state reasons why certificates are obtained from third parties. (2 Marks)
- (iii) Describe three types of third-party certificates. (3 Marks)

(Total -15 Marks)

### QUESTION 3

Auditing firms do not always describe themselves as auditors. They describe themselves as "Chartered Accountants" because apart from auditing, they also render other services to their clients. Describe FIVE other services, which audit firms provide for their clients in addition to auditing

(Total - 5 Marks)

### QUESTION 4

An auditor is expected to be independent, competent and of high integrity.

a) Write short notes on each of the above qualities. (5 Marks)

(b) List FIVE factors that may impair the independence of an auditor. (5 Marks)

(Total -10 Marks)

### QUESTION 5

(a) The auditing guidelines "Audit evidence" suggests that techniques of audit testing fall into some broad categories. List and discuss FOUR of these categories giving (TWO) examples of each.

(8 Marks)

(b) "Audit evidence" refers to the information obtained by the auditor and used in arriving at the conclusion on which he bases his opinion on the financial statements. List FIVE sources of audit evidence.

(5 Marks)

(Total -13 Marks)

### QUESTION 6

(a) What are the audit objectives applicable to inventories? (5 Marks)

- (b) The audit objectives in the verification of liabilities should focus on ascertaining that accrued liabilities are not understated, but not ignoring the possibility of the opposite may occur. What are some possible auditing procedures that would help the auditor address the completeness audit objective for liabilities? (7 Marks)

(Total - 12 Marks)

**\*\*\*END OF PAPER\*\*\***