



“Investing in Africa’s Future”

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC 209: AUDIT PROCESS

END OF FIRST SEMESTER EXAMINATIONS

MAY 2022

LECTURER: N. E CHIRIMA

INSTRUCTIONS

ANSWER ***ALL*** QUESTIONS

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR
PRESENTATION

QUESTION 1

You are a senior manager in Jay Partners, a small firm of Chartered Certified Accountants, which specializes in providing audits and financial statement reviews for small to medium-sized companies. You are responsible for evaluating potential assurance engagements, and for producing a brief report on each prospective piece of work to be used by the partners in your firm when deciding whether to accept or decline the engagement. Jay Partners is keen to expand the assurance services offered, as a replacement for revenue lost from the many small-company clients choosing not to have a statutory audit in recent years. It is currently May 2021.

Rura Pvt Ltd has been an audit client of Jay Partners for the past three years. The company owns and operates a chain of retail outlets selling pet supplies. The finance director of Rura Pvt Ltd recently communicated with your firm to enquire about the provision of an assurance report on data provided in the Environmental Report published on the company's website. The following is an extract from the e-mail sent to your firm from the finance director of Rura Pvt Ltd

'At the last board meeting, my fellow directors discussed the content of the Environmental Report. They are keen to ensure that the data contained in the report is credible, and they have asked whether your firm would be willing to provide some kind of opinion verifying the disclosures made. Rura Pvt Ltd is strongly committed to disclosing environmental data, and information gathered from our website indicates that our customers are very interested in environmental matters. It is therefore important to us that Rura Pvt Ltd reports positive information which should help to retain existing customers and to attract new customers. I am keen to hear your views on this matter at your earliest convenience. We would like verification of the data as soon as possible.'

You have looked at Rura Pvt Ltd Environmental Report on the company website and found a great deal of numerical data provided, as disclosed in the table below.

Rura Pvt Ltd Target	Actual Performance to 30 April 2021	Actual Performance to 30 April 2020	Reason for variance/ trend
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To spend \$1m per annum on developing environmentally-friendly packaging and bags	\$1.1m spent on relevant development	\$0.75m spent on relevant development	More liquid fluids available in the year 2021 to spend on development projects
To increase the amount of waste recycled by 10% per annum	50 tons of waste recycled	25 tons of waste recycled	Doubled the amount of waste recycled due to installation of recycling bins to all stores
To ensure that at least 90% of our customers are very happy	95% very happy	70% very happy	Customers complete surveys in the store to rate our policies. Data shows that customers are extremely happy with our projects on environmental matters

You are required to prepare a report to the audit partner advising him/ her on whether the engagement should be accepted.

30 marks

QUESTION 2

COVID – 19 prevention measures taken by governments have resulted in significant changes in business operations. Despite these challenges, auditors are expected to perform audits in accordance with International Standards on Auditing (ISAs) ensuring they access appropriate sufficient audit evidence to reduce audit risk to an acceptably low level. You are required to:

- a. Outline some of the challenges faced by businesses as a result of COVID – 19 prevention measures put in place by governments. 10 marks

- b. Identify the audit risks arising as a result of the challenges you highlighted in (a).

10 marks

- c. List at least five audit procedures you would perform to increase the probability of detection of the risks you identified in (b) 10 marks

QUESTION 3

You are the audit manager for the audit of K Ltd; a listed retail company operating in a hyperinflationary, volatile economy where International Accounting Standard (IAS) 29 has been adopted. The company has over twenty (20) retail outlets in the capital city and a branch in each of the five major cities of the country. Although its main focus is on groceries, K Ltd also sells furniture and clothing. 90% of K Ltd's inventory is procured from outside the country using foreign currency. Inventory accounts for more than 30% of the company's total assets. During the financial year being reported, the year ended 31 December 2021, K Ltd changed its accounting software to a more user-friendly package. For the last 3 months of 2021, K Ltd has been using both the old and the new system to try and prevent data loss. As the audit manager, you are required to:

- a. Prepare an audit strategy for the audit of K Ltd 10 marks
- b. Prepare an audit plan for the audit of K Ltd. 7 marks
- c. Prepare an audit program (indicating the assertion(s) being addressed by each procedure) for inventory. 12 marks

- d. During observation of the inventory count, it was noted that there were no inventory count procedures for damaged and obsolete inventory. Prepare an extract of the management letter in relation to this weakness noted. 5 marks
- e. At the end of the audit, K receives a qualified audit opinion and the Chief Operations Manager is not pleased. Prepare a brief report explaining to him the four forms of audit reports. 6 marks

END OF PAPER