AFRICA UNIVERSITY
A United Methodist-Related Institution

"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC209: AUDIT PROCESS

END OF SECOND SEMESTER EXAMINATIONS

APRIL 2023

LECTURER: N. E CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

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

MARKS ALLOTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

1. With reference to any two of the 21st financial scandals, illustrate at least one consequence of a disruption in the agency-principal relationships cementing corporations. [10 marks]

2. With reference to the International Ethics Standards Board for Accountants (IESBA) framework, outline the necessity of safeguards in an auditor's work and regulatory environment.

[15 marks]

3. You are the audit team leader for your firm's financial audit engagement with Jut Ltd which is to be performed in accordance with the International Standards on Auditing (ISAs). Prepare a brief outline enlightening your team members of the audit process stages. [15 marks]

4. E Manufacturing Ltd is a timber Zimbabwean based organization whose headquarters are in Mutare. It owns two plantations in Manicaland and one plantation in Hlatikulu (Swaziland) – each plantation has a saw-mill. The company's main manufacturing plant is in Mutare and another is in Manzini (Swaziland). The company's reporting currency is the United States of America dollar (USD); while its operating currency in Swaziland is the rand and in Zimbabwe it follows the prevailing multi – currency system. The company imports manufacturing equipment, machine parts, glue and other supplies from Mozambique. While serving both its domestic markets, its key target is the export market, mostly Canada, United States of America, Netherlands, Botswana, South Africa and Angola. The company has recently been listed on the Zimbabwe Stock Exchange and is hoping to attain dual listing once its application is approved on the Johannesburg Stock Exchange. To ensure listing requirements are adhered to, the company appointed an Australian qualified Chartered Accountant as its finance director three months before the year-end under audit. Subsequent information obtained reveals that the Australian finance director resigned two months after the 2020 financial year end. A high employee turnover has apparently become a norm at the company. Eighty five percent of its owners are institutional investors. The company has never appointed an internal auditor and does not have an internal audit department. Eighteen bank accounts are held by the company in various countries and with different banks to facilitate trade. In 2020, the company had to borrow heavily, using its plantations and part of its production plant as security, in order to scale up production which had been affected by the COVID-19 lockdown measures. You are the partner

of E Manufacturing Ltd's financial audit for the year ended 31 December 2020. You are required to:

a. Perform an environment scan (both internal and external) of E Ltd, highlighting the inherent [5 marks] and control risk factors [5 marks].

b. In accordance with the requirements of ISA 300, prepare an audit strategy [5 marks] and an audit plan [8 marks] for the financial audit of E Ltd.

c. With reference to the theories on fraud identify any possible fraud risk factors. [7 marks]

d. Prepare a management letter highlighting five internal control concerns noted. [10 marks]

5. For each of the scenarios below, you are required to prepare an extract of the audit report showing the opinion paragraph in accordance with the requirements of ISA 700, 705 and 706.

Scenario 1

Immaterial misstatements due to error have been found in Z Ltd's financial report. You have discussed these with the client and they have since been corrected. Disclosure of investments departed immaterially from the requirements of International Accounting Standard (IAS) 40. The finance director has expressed that, based on professional judgment, investments have been disclosed in a manner that ensures useful information is communicated to users; he has thus not adjusted in line with the requirements of IAS 40. [5 marks]

Scenario 2

K Ltd is operating in a country where IAS 29 (Financial Reporting in Hyperinflationary Economies) has been adopted for the first time. Since accountants are not yet familiar with the standard a number of material departures have been noted in its application. Discrepancies and inconsistencies in the indices used for the hyper – inflation adjusted balances were also noted.

[7 marks]

Scenario 3

As an auditor you have been unable to verify inventory on consignment amounting to $1,2million; which is material. The client has failed to supply relevant documentation and there has been no response from the confirmation requests you send to the consignee. Half of the employees on the pay-roll could not be physically verified as they were reported to be on three months leave. [8 marks]

END OF PAPER