



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

**COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE**

**NMAC 209: AUDIT PROCESS**

**END OF SECOND SEMESTER EXAMINATIONS**

**APRIL 2023**

**LECTURER: N. E CHIRIMA**

**TIME: 3 HOURS**

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### ***INSTRUCTIONS***

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

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

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CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR  
PRESENTATION

1. The involvement of Arthur Andersen in several scandals including Enron, Worldcom, Waste Management, Baptist Foundation of Arizona as well as Sunbeam Products stirred the investor community's confidence in the audit profession. The downfall of the then top accounting firm in 2001-2002 gave rise to the question "Who audits the auditor". With reference to the Arthur Andersen case, describe five effects of an auditor's failure to uphold independence. [10 marks]

2. The board members of Ferd Ltd have agreed to re-engage K Audit Firm as its auditors for their financial year starting 1 June 2023. K Audit Firm has been auditing Ferd Ltd for the past sixteen years. The audit partner in charge of Ferd Ltd's audit has not changed over the years to ensure consistency; however the audit team is reshuffled from year to year. It has come to the attention of K Audit Firm that one of the subsidiaries of Bibi Group of Companies (a new audit engagement it is considering) is Ferd Ltd's major competitor. K Audit Firm's audit manager's son recently completed his Bachelor of Accounting degree and has been called for an interview for a graduate trainee vacancy at Ferd Ltd. Three of K Audit Firm's audit clerks who recently completed their articles and were involved in Ferd Ltd's prior period audit have recently received job offers from Bibi Group of Companies.

With reference to the fundamental ethical principles, as presented by the International Ethics Standards Board for Accountants (IESBA):

i. Outline the threats to compliance with fundamental ethical principles facing K Audit Firm in the above scenario [7 marks]

ii. Explain the safeguards to be implemented by K Audit Firm in order to reduce the effects of the threats outline in (i). [8 marks]

3. Your uncle, Mr. Jao, is an entrepreneur who has established a family business which is expanding rapidly. In order to finance part of the business' growth, Mr. Jao has applied for a bank loan which requires audited financial statements for the past three years; and thus he has engaged Ziva Audit Firm. However, he approaches you and expresses his disappointment as the auditors visited the office to start the audit but left within an hour citing that the business is not prepared for the audit as the pre-conditions are not present. Mr. Jao has failed to understand the auditors' behavior and he feels he has been treated unprofessionally. Upon further enquiry, he informs you that receipts were captured in a receipt book while all payments were made through

bank transfers but were not captured by the business as they relied on bank statements for updated information. There is no filing system in place and a small notebook is used to capture any creditors or debtors. In order to cut costs, the business does not employ accounting personnel and hires consultants for pay-roll preparation. Mr. Jao feels there is no need for an accounting system since the business only employs close family members whom he can trust. Mr. Jao is also not happy with the audit fee note he has received from the auditors because, despite their explanation that they had started working on the audit in their offices, he does not see evidence of any audit work done. Against this background, Mr. Jao approaches you as he knows that you are an accounting student and therefore can advise him accordingly.

You are required to:

- i. Explain the objectives of an auditor in line with the Companies and Other Entities Act (2019) of Zimbabwe as well as the International Standard on Auditing (ISA) 200 – (Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with ISAs). [5 marks]
- ii. With reference to ISA 200, clearly state the responsibilities of management as well as those of the auditor in an audit of financial statements. [8 marks]
- ii. Describe the audit process stages to Mr. Jao, emphasizing why audit fees has been charged. [15 marks]
- iii. Based on the requirements of ISA 210 (Agreeing the Terms of Audit Engagements), outline the pre-conditions of an audit of financial statements. [7 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 imports manufacturing equipment, machine parts, glue and other supplies from Mozambique. The company has invested heavily on shares trading on stock exchanges in Canada, United States of America, Netherlands, Botswana, South Africa and Angola. 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. Due to the drastic decrease in its product's demand during the COVID era, part of its manufacturing plant was shut down and, although operations have resumed, it is still being used at low capacity. Machines worth \$2 million (which is material for the company) are now redundant and no longer in use. E Manufacturing Ltd has adopted the financial reporting framework as pronounced by the International Accounting Standards Board.

You are required to prepare a working paper for E Manufacturing Ltd's

- i. Machine spare parts purchases walk-through test [20 marks]
- ii. Property Plant and Equipment, highlighting the assertions covered by each procedure. [20 marks]

END OF PAPER