



"Investing in Africa's Future"

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

NMAC408: ADVANCED AUDIT THEORY AND PRACTICE

SECOND SEMESTER EXAMINATIONS

APRIL 2026

LECTURER: DR N. E CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

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

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

QUESTION ONE (25 possible marks)

- a) DEF Ltd has recently formed an audit committee but lacks formal reporting structures.
Required: Discuss the auditor's role in assessing corporate governance structures and the impact on the audit plan. (10 marks)
- b) You are reviewing lessons from the Enron collapse.
Required: Explain how these scandals illustrate the importance of auditor scepticism, risk assessment, and fraud detection in modern auditing. (15 marks)

QUESTION TWO (25 possible marks)

Following a corporate collapse, an investigation reveals poor leadership commitment to quality, ineffective engagement quality reviews and weak engagement partner involvement.

Required:

- a) Critically evaluate the failures in audit quality management using International Standard on Quality Management (ISQM) 1 (*Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*), ISQM 2 (*Engagement Quality Reviews*) and International Standard on Auditing (ISA) 220 (*Quality Management for an Audit of Financial Statements*). (10 marks)
- b) Discuss how proper application of these standards could have mitigated the issues identified. (15 marks)

QUESTION THREE (25 possible marks)

You are a senior audit manager at Moyo Audit Firm. Your firm has recently been appointed as the external auditor of GG Ltd, a medium-sized agricultural processing company specialising in grain storage and distribution. The financial statements for the year ended 31 December 2025 are currently at the audit fieldwork stage. This is the first year your firm has audited GG (Pvt) Ltd. The prior year financial statements were audited by another firm, but management has been slow to provide access to the predecessor auditor's working papers.

During the audit, the following matters have arisen:

Audit Evidence and Sampling

Inventory represents 45% of total assets and consists mainly of maize and wheat stored at various rural depots. Due to time constraints, the engagement team proposes to use audit sampling when testing inventory quantities and valuation. Some inventory records are maintained manually.

External Confirmations

Trade receivables include several large balances owed by government agencies and related distributors. Management has requested that the auditor does not send external confirmations, arguing that customers are slow to respond and confirmations delay audit completion.

Analytical Procedures

Preliminary analytical procedures indicate that gross profit margins have increased significantly compared to the prior year, despite no major changes in pricing or production methods.

Accounting Estimates

Management has recognised a large impairment reversal on storage facilities, based on internally generated future cash flow forecasts. The assumptions used appear optimistic.

Related Parties

During discussions with management, the audit team becomes aware that several large purchases were made from a company owned by the managing director's close family member. These transactions were not disclosed as related party transactions in the draft financial statements.

Subsequent Events and Going Concern

After the reporting period but before the auditor's report is signed, a major customer accounting for 30% of revenue has gone into liquidation. In addition, the company is experiencing cash flow difficulties and has breached a loan covenant, although management believes the business remains a going concern.

Written Representations

Management has indicated that they are willing to provide written representations to support certain balances and disclosures where audit evidence is difficult to obtain.

REQUIRED: Explain the auditor's responsibilities and the audit procedures that should be performed in relation to the matters identified above, with reference to the relevant ISAs. *(25 marks)*

QUESTION FOUR (25 possible marks)

During the audit of ABC Ltd, the audit team uses AI tools to analyze 1 million transactions to detect unusual revenue patterns.

Required: Discuss the advantages, limitations, and reporting implications of using AI in substantive audit procedures. *(25 marks)*

END OF EXAMINATION