



"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC 208: AUDIT SKILLS

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2021

LECTURER: N. E CHIRIMA

TIME : 5 HOURS

INSTRUCTIONS

ANSWER TWO QUESTIONS USING MICROSOFT 97 – 2003 Document

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

QUESTION 1

In its definition of assurance, the King IV report specifies that the objective of the assurance function is “to express a conclusion designed to enhance the degree of confidence of the intended users ... about the outcome of the evaluation or measurement of a subject matter against criteria”. It further outlines various assurance service providers both external and internal to the organization. Assurance can only be successfully delivered provided the service provider maintains their independence.

Required

1. With reference to the Arthur Andersen case, illustrate the repercussions of failure by the assurance function to enhance the degree of confidence of the intended users. *10 marks*
2. International Standard on Auditing (ISA) 200 specifies an auditor’s objectives as well as five fundamental requirements an auditor is to observe while conducting an audit to ensure that intended users’ confidence is upheld. Based on your analysis of the Arthur Andersen case, to what extent did the audit firm observe the requirements of ISA 200 and meet its objectives in each of the scandals it was involved in which led to its 2001 demise. *25 marks*

3. In your opinion, to what extent did Arthur Andersen observe the International Ethics Standards Board for Accountants (IESBA)'s code of professional conduct? *15 marks*

QUESTION 2

With reference to a company of your choice (for those on attachment – select the company to which you are attached), prepare:

1. A detailed description for its purchases, human resources or sales system. *10 marks*
2. Draw a flow chart of the system selected in (1) *5 marks*
3. Prepare a detailed audit program for the system selected in (1), identifying the assertions fulfilled by each procedure. *15 marks*
4. Identify the probable Risks of Material Misstatement in the system selected in (1), categorizing the risk as either inherent or control risk. *20 marks*

QUESTION 3

BetterHlth Group of hospitals has employed you as an intern in its administration department. The Group has at least one (at most three) private hospital in each of the African country's seven cities, private clinics in all the low density suburbs, Doctor's consulting rooms in the central business areas as well as several pharmacies. On average, its Group annual revenue is approximately USD 11 million and in its most recent financial report it had a net asset position of USD 7 million (rounded off). The Group's Chief Executive Officer (CEO) is a medical professional while the Finance Officer (FO) is an accounting graduate who attained his qualification in 1991 and has not updated it since then. It has come to the attention of the board chair that Corporate Governance best practices recommend

- a. The board to have at least one qualified finance person
- b. The board to have committees, one of which should be the audit committee
- c. An internal audit department to enhance assurance given to stakeholders
- d. Annual external audits

The board members have been debating and reflecting on these issues with the CEO and FO emphasizing the issue of cost, while other board members argue that an auditor is an accountant and thus the FO can double up as both. Other board members are arguing that audits are not necessary; what is important is the fact that a financial report is prepared and presented annually. Since the board has not been able to come to an agreement on these issues, they have requested the CEO to present a well-researched report advising them on these issues, thus enabling them to make a decision. The CEO has in turn delegated this responsibility to the Finance Officer. The Finance Officer, being out of touch with the developments in the accounting profession during the 21st Century, has asked you to assist since Audit Skills is one of the courses you passed highly on your transcript.

You are required to:

1. prepare an internal memorandum addressed to the CEO and copied to the FO, advising them on:
 - a. Best governance practices being recommended on an international as well as national (refer to your country) level with reference to relevant reports and codes in place; *7 marks*
 - b. The role played by accountability, transparency and assurance (three of the six pillars of corporate governance) in upholding corporate governance. In doing so, specify the differences between accounting and auditing, emphasizing how each of the two disciplines feeds into the three corporate governance pillars specified; *20 marks*
 - c. The functions and recommended composition of the audit committee; *5 marks*
 - d. Perform a cost benefit analysis of the Betterhlth Group having an internal and an external audit function. *8 marks*
2. Prepare a detailed advertisement for:
 - a. The Group Internal Auditor *5 marks*
 - b. The Group External Auditor *5 marks*

END OF PAPER