



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

**COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE**

**NMAC 408: ADVANCED AUDITING**

**END OF FIRST SEMESTER EXAMINATIONS**

**NOVEMBER 2021**

**LECTURER: N. E CHIRIMA**

**TIME : 5 HOURS**

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### ***INSTRUCTIONS***

ANSWER TWO QUESTIONS

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

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CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR  
PRESENTATION

## QUESTION 1

According to International Standard on Auditing (ISA) 240, “Fraud, whether enacted through fraudulent reporting or misappropriation of assets, involves incentive or pressure to commit fraud; a perceived opportunity to do so and some rationalization of the act.” Recent researchers and philosophers have included “ability” thus moving from the fraud triangle to the fraud diamond. ISA 240 reinforces the objective of the auditor as stated in ISA 200, pointing out that the inherent limitations of an audit may result in some material misstatements being undetected by a properly planned and performed audit.

You are required to:

- a. Select a 21<sup>st</sup> global financial scandal and outline the extent of the presence of each of the four fraud diamond factors. *20 marks*
- b. With reference to the 21<sup>st</sup> global financial scandal you selected in part (a.) as well as the requirements of the ISAs; to what extent can the auditor be held liable for issuing an inappropriate audit opinion where there are material misstatements due to fraud. *30 marks*

## QUESTION 2

You have been presented with a Group Financial Report, for the year ended 30 September 2021, for a Zimbabwean based company listed on the Zimbabwean Stock Exchange (ZSE). The group has two South African Based subsidiaries listed on the Johannesburg Stock Exchange (JSE), one associate listed on the London Stock exchange and a joint operation in Malawi. It also has investments in Malawi, South Africa and Mozambique. The Group is made up of four main segments – telecommunications, retail banking, micro – finance and electronics.

You are required to:

1. Prepare a report for the audit firm you are working for; whose intention is to take up an audit engagement with the Group of companies described above. In your report,
  - i. Analyze the Group’s environment, in accordance with the requirements of ISA 315 *10 marks*
  - ii. Based on your analysis, identify and assess the risks of material misstatement in the Financial Report for the year ended 30 September 2021 *20 marks*

- iii. Advise the audit firm on whether or not to accept the engagement based on the requirements of relevant ISAs. *5 marks*
- 2. Prepare a detailed (assuming the audit firm has decided to take up the engagement.)
  - i. audit strategy for the Group of Companies' audit *5 marks*
  - ii. audit plan for the Group of Companies' audit *5 marks*
  - iii. Audit program for the group's leasehold property. For each procedure included in the program include the assertion to be addressed by the procedure *5 marks*

### **QUESTION 3**

During an audit of Kuneta Ltd's integrated financial report for the year ended 31 January 2021, the following issues were noted:

- a. The Group and Company changed their functional and reporting currency from United States Dollars (US\$) to Real Time Gross Settlement Dollars (RTGS\$) on 22 February 2019 in compliance with Statutory Instrument 33 of 2019. Based on the audit evidence gathered, the change occurred on 1 October 2018.
- b. In the current year, the Group and Company translated foreign denominated transactions and balances to the Zimbabwe Local Currency (ZWL) using the interbank exchange rates for the period 05 February 2020 to 22 July 2020. (This includes the period between March and June 2020 when the exchange rate was fixed at US\$1: ZWL25). Subsequent to 23 June 2020, management translated foreign denominated transactions and balances to ZWL using the weighted average auction exchange rates for the period 23 June 2020 to 31 January 2021.
- c. In the prior year, the Group and Company's Properties (Land and buildings) were incorrectly valued as a conversion rate was applied to US\$ valuation inputs to calculate the ZWL asset values which we disagreed with. Those incorrect values were brought forward into the current year as opening balances without any adjustments.
- d. Property Plant and Equipment (PPE) were valued by management experts using historical US\$ denominated inputs and converted into ZWL at the auction exchange rates both in the prior year and as at 31 January 2021. The implicit investment method was applied for commercial properties and key inputs into the calculations include rentals per square meter and capitalization rates. Residential properties were valued in terms of the market

comparable approach. PPE was valued in terms of the Depreciated Replacement Cost approach. Due to their nature, there was no information on relevant inputs in ZWL making it impossible to determine the necessary adjustments to ensure these amounts are correctly accounted for.

- e. The Group and Company's Leasehold Improvements carried at ZWL66 975 707 (31 January 2020: ZWL71 267 320) and ZWL55 224 520 (31 January 2020: ZWL62 820 284) respectively as at 31 January 2021 were not revalued in accordance with the group's accounting policy. Since the last revaluations in 2018, another revaluation exercise was not carried out as at period end despite the significant changes seen in the current economic environment. Owing to the lack of information on relevant inputs in ZWL it was not possible to determine the appropriate fair values and therefore cannot quantify the possible impact.
- f. International Accounting Standard (IAS 29) has been applied correctly, but its application was based on prior and current periods' financial information which was not in compliance with IAS 21 / IAS 8/ IAS 16/ International Financial Reporting Standard (IFRS) 13 as described above.

Kuneta Ltd is a group of companies head quartered in Zimbabwe and listed on the Zimbabwean Stock exchange. It has subsidiaries as well as associates in all Southern African countries.

You are required to:

1. Prepare a management letter, highlighting each weakness or strength noted the risks as well as your recommendations on how the weakness / strength should be addressed by management. You are to also include the implications of the weakness or strength on future audits. *20 marks*
2. An audit report, in compliance with the requirements of ISA 700, ISA 705 and ISA 706, for Kuneta Ltd as its group auditor. *30 marks*

**END OF EXAMINATION**