COMPETENCE PRACTICE EXAMINATION

AUDIT PRACTISING CERTIFICATE

JUNE 2025

TIME ALLOWED: 5 HOURS

INSTRUCTIONS TO CANDIDATES

1. This paper has Two Questions.

2. You are required to attempt ALL the two questions

3. All the two questions carry equal marks.

4. The Examination is divided into sessions of $2^1/_2$ hours each. There will be a 30 Minutes break in between the sessions.

5. Please use your Membership number and your National Registration Card number on the front of the answer booklet. Your name must NOT appear anywhere on your answer booklet.

6. This is an open book examination.

CPE – FULL AUDIT QUESTION ONE

DELTA & CO

Your name is Mary Zulu and you are a senior audit manager in Delta & Co, a firm of Chartered Accountants registered to provide audit and other related and assurance services. You have received the following e-mail from your engagement partner – Mrs. Charity Bowa

To : Mary   Date : 1st June 2025

Subject : Mary

Good morning Mary,

I would like you to deal with the following three assignments in the next three months. The responses to the ZICA review should be prioritized.

Assignment 1 : ZICA Review

As you are aware, the Zambia Institute of Chartered Accountants (ZICA) review team were here last month and following their review, they have issued a report of their findings on our long standing clients, Misebo Plc. The review relating to the audit of Misebo Plc was graded as "C" – i.e. below average. Your assignment is to review the audit of Misebo for the year ended 31st March 2025 and determine deficiencies in our quality management processes and procedures and recommend the appropriate action that we should have taken. We are supposed to provide a response to ZICA. Relevant information is included in **exhibit 1**

Assignment 2 : Chinyama Plc

I have reviewed your completion work done on Chinyama plc and I am satisfied with the conclusions drawn. However, there have been further developments relating to the Foot and Mouth Disease you rightly noted as an issue affecting the valuation of biological assets as at the end of the year. I would like you to consider the proposed management accounting treatment of the events from 2nd February 2025. This is included in **exhibit 2**

Assignment 3 : Bola Football Club Limited

We are taking over the audit of Bola Football Club Limited (BFCL) from HPL Associates, the previous auditors. I would like you to start the planning of the audit immediately, including recommending procedures to be performed on selected balances. Please note that the audit report issued by HLP on the financial statements was qualified due to a material misstatement relating to impairment of some football players which was not taken into account. The relevant **information is included in exhibit 3.**

Please keep me informed of your progress

Good day

Charity Bowa

Exhibit 1 : Misebo Plc

You have been asked to review the audit performed on Misebo Plc for the financial year ended 31st March 2025. You have gathered the following information from your review of the audit file:

- **Audit team**

Misebo Plc is a listed company operating in the construction industry. Misebo Plc has been an audit client of Delta & Co for eight years, and Bob Lukozu has been the audit engagement partner during this time. Misebo Plc's audit report was signed by Bob Lukozu and issued last week. The report contained an unmodified opinion.

Delta & Co requires its staff to record each hour they spend working on each client in the firm's time management system/ From reviewing the time records to the audit of Misebo Plc, you are aware that Bob and the other audit team members recorded the following amount of time on the audit:

Bob Lukozu – Audit engagement partner	2 hours
Mwaka Lishebo - Audit manager	6 hours
Anelo Kunda – Audit Supervisor	35 hours
Four audit assistants	130 hours
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	173 hours

- **Fees**

It is apparent from your review that almost all of the detailed review of the audit working papers was completed by Anelo Kunda, who has evidenced her review by stating "final review" on each page of the audit file. She has recently been promoted to audit supervisor.

You are also aware that Bob Lukozu booked a total of 40 hours to Misebo Plc in respect of non-audit work performed. The only information you can find in the documentation is that the non-audit work related to a "special investigation". The total fee charged for the audit was K250,000 and the total charged for the special investigation was K890,000

- **Going concern**

From reviewing the audit working papers, you are aware that going concern was identified as a significant audit risk at the planning stage of the audit due to low profit margins or losses being made on many of the company's construction contracts and increasing economic uncertainty. The company typically has 20 contracts ongoing at any time.

Most of the audit work on going concern was performed by Lulu Chabu, an audit assistant who has just taken her last professional CA exams and is not yet qualified. The majority of the audit work performed on going concern focused on a review of five major contracts to determine profitability. The management of Misebo Plc identified the major contracts for review and provided Lulu with forecasts indicating that the contracts would all make a small profit. Lulu confirmed that the assumptions used in the forecasts agreed to assumptions used in previous years and concluded that the contracts which she had reviewed support the going concern status of the company. Having reviewed these major contracts, Lulu completed the conclusion on going concern, stating that there is no significant uncertainty over going concern

Exhibit 2 : Chinyama Plc

Chinyama Plc (CP) is one of the firm's long standing clients. CP is in the business of farming and animal husbandry, holding large herds of cattle at any one time. The farm is located in Mazabuka. In its financial statements for the year ended 31st December 2024, CP has reported the following results

Revenue	:	K210 million
Total Assets	:	K525 million
Profit before tax	:	K39.5 million
Biological Assets - Cattle	:	K44.5 million

During the inventory count, which was conducted between 1st January and 3rd January 2025, it was discovered that twenty-three cows had died from foot and mouth disease (FMD) and several other were suspected of being affected by the foot and mouth and disease.

On 2nd February 2025, the Department of Veterinary Services in the Ministry of Fisheries and livestock declared Mazabuka and other surrounding areas as high risk in relation to the FMD. Additionally, the department instructed that all animals exposed to the pandemic should be killed and burnt at specially designated centers.

CP has assessed that about 90% of the inventories of cattle have been exposed to the FMD and therefore would be destroyed. CP is fully insured against such losses and expects to recover any loss in full from Ladson Insurance

The management of CP have concluded that the events occurring since the 2nd February should be regarded as non-adjusting events and accordingly, CP has only disclosed these events in the financial statements for the year ended 31st December 2024. Management contends that that no recognition is necessary in any case since the loss expected would be recovered from the insurance company

Exhibit 3 : Bola Football Club Limited

1. Introduction and history

Athletic Bola Football (ABF) club is a football (soccer) club which plays in the Zambia Football League (ZFL) ABF has been successful in the past, winning a number of trophies, but has increasingly struggled to compete with other leading clubs in Zambia.

ABF was founded in 1984. Its men's first team has played in the ZFL since 1997. ABF was set up in 1984 with the sole objective of operating the football club. The club was started by ZamFinance Bank as part of its corporate social responsibility

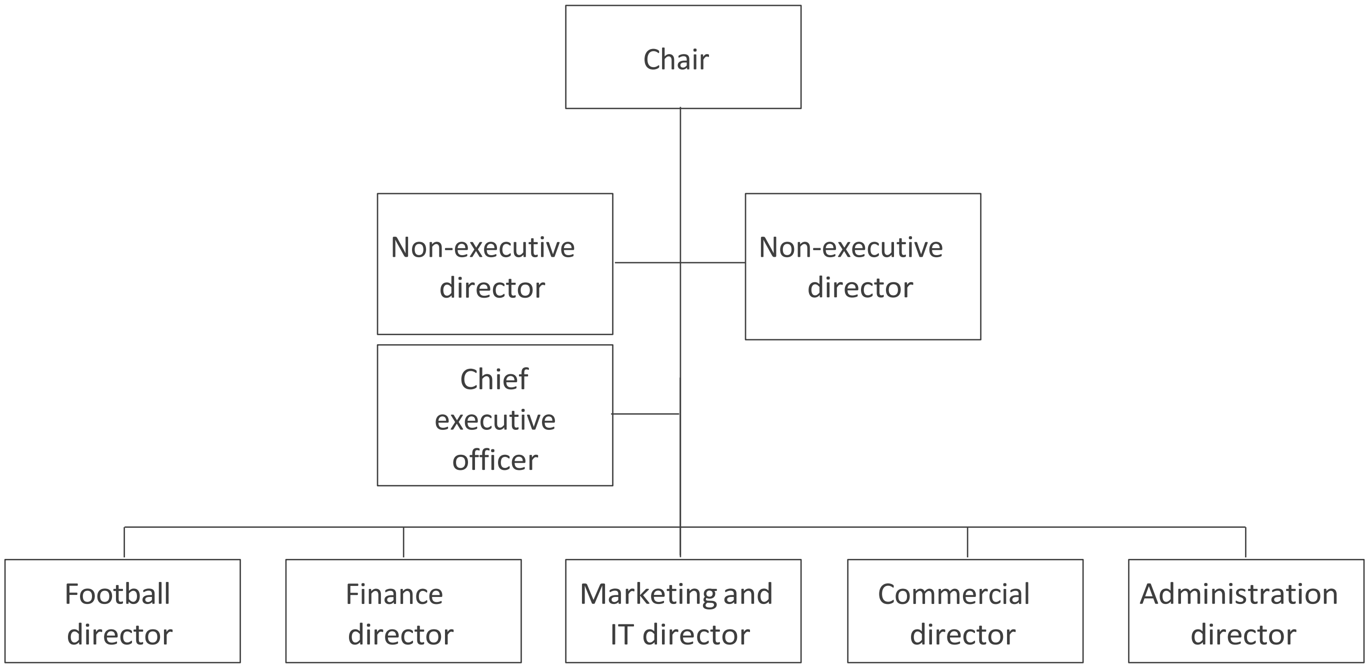
ABF's traditional colours are white shirts with black sleeves and black shorts and socks.

Teams

ABF has men's and women's first, reserve and under-18 teams.

The men's first team has been in the top division of the ZFL for a number of years and has won Division 1 of the ZFL six times and the domestic cup competition five times. Its success over the years has meant it has built up a strong base of supporters. However, the team has not won the Division 1 title or the domestic cup for the last 5 years and has not qualified for the African Continental League for the last eight years.

Board structure



The board is assisted by a company secretary, who is not a director. The Chairman is the finance director of the sponsoring bank – ZamFinance Bank-

Players

ABF is always in the market looking for new players to improve the team and to get it back to winning ways. The market for players is expensive with prices quoted in US dollars. In order to attract good players, ABF remunerates its players in US dollars based on team and individual performance. During the 2023/24 season, ABF has only managed to buy 2 players from Congo DRC Warriors.

On 14 November 2024, a board decision was made to sell five of its ten players that were over 30 years of age. However, by 31st of December 2024, these players were still at ABF as no active negotiations had started with their agents. These players have been treated as Assets held for sale and valued at the lower of their net realizable value and carry value. The market value of players that are 30 years and above is relatively lower as the performance of players in the age group are not able to sustain the demands of the professional game.

Stadium

ABF's stadium was built 20 years ago. It is located in the center of the city of Lusaka, as part of the Kapwepwe shopping mall. Whilst no other Division 1 teams play in the city of Lusaka, three other Division 1 teams are based within 40 kilometers of ABF's stadium. The basic infrastructure where the stadium is located is on a long term lease with the owners of the Kapwepwe shopping mall.

The average attendance for AT's ZFL Division 1 matches in the 2023/4 season was 80% of its capacity (around 3,040) - (previous season - 96·5% of capacity (around 3,670), compared with an average for Division 1 of 96·3%. 96·5% is considered to be full capacity in the industry. 75% of the seats are typically occupied by seasonal ticket holders who buy tickets in advance at the beginning of the season. The ticket charges are not refundable but can only be transferred to another season or other user. All amounts received from seasonal ticket buyers are treated as revenue from date of receipt on grounds that they are not refundable.

The reduction in the stadium capacity is partly attributed to dwindling fans' support due to poor results in the recent past. Maintenance expenditure on the stadium has increased significantly over the last ten years, due to its age and increasingly strict health and safety requirements. Following the collapse of parts of it's fence ABF now plans to construct a new barrier in 2025 within the VIP (Very Important Persons) sitting area estimated to cost around K250,000. This amount has been included as part of the provisions balance included in the financial statements for the year ended 31st December 2024. Additionally, the local council have issued a warning to ABF for potential breach of stated healthy and safety regulations.

2. Football sector Information – Zambia

Professional clubs in Zambia

First team players have generally moved up from other teams at the same club or have been transferred in from other clubs. When players are transferred between clubs, a transfer fee is payable to the club selling the player by the club buying the player. Transfer fees for the best men players can be very large.

The most important driver of profitability for professional clubs is the performance of their men's first team in the Zambia football league and international competitions.

Zambia football league (ZFL)

The ZFL has three divisions for clubs' men's first teams. Each division has 18 teams in it. The league season lasts from August to May. Teams play each other in the league twice each season, once each at each team's stadium. Teams earn three points for winning a match, one point for drawing a match and no points for losing a match.

At the end of each season, the two teams with the fewest points are relegated from each of Divisions 1 and 2 of the ZFL and play in the next division down the following season. The two teams with the most points are promoted from each of Divisions 2 and 3 of the ZFL and play in the next division up the following season. Teams can also be relegated downwards for serious breaches of the ZFL's regulations, including financial misconduct. Teams who win a division are awarded a trophy and prize money. Teams which are promoted to the next division may benefit from increased sponsorship and income from television.

Clubs in Division 1 of the ZFL have supporters not just in Zambia, but around the region

Industry body

The ZFL is governed by the Football Association of Zambia (FAZ). The FAZ enforces the playing and other regulations of the ZFL. Other regulations include financial fair play regulations. The FAZ recommends that clubs follow generally accepted corporate governance best practice. Breach of any of these regulations results in significant fines (2% of revenue) and penalties being imposed, including deduction of points

The FAZ's regulations must comply with the requirements of African and World football's governing bodies.

Leading teams in Zambia

Details about the eight leading teams in Division 1 of the ZFL last season (2023/4) are as follows:

	Position in league			Stadium capacity	Revenue in 2023/4 annual accounts (excluding player trading)
	2023/4	2022/3	2021/2		K'000
Green Warriors	1	3	1	7,300	6,930
Kitwe Football Club	2	1	2	7,000	6,680
Mongu Bullets	3	4	6	6,200	5,890
Tower Dynamos	4	5	3	5,800	5,540
Goat Wanderers	5	7	8	5,500	4,720
Mashoti goals	6	8	7	4,300	3,540
Sporting Solwezi	7	2	4	6,000	4,680
Athletic Bola Football Club	8	6	5	3,800	3,420

REQUIREMENTS

1) In relation to the review of the Misebo Plc audit

a) Evaluate any SIX issues in total relating to the quality management, ethical and other professional issues that ZICA is likely to have raised regarding the audit of Misebo Plc **(18 marks)**

b) For each issue raised in (a) above, recommend appropriate actions to be taken as part of the responses to be provided to ZICA **(12 marks)**

2) In relation to the finalization of the audit of Chinyama plc

a) State the matters to consider and further action you should take regarding the:

i) Disclosure of the FMD event **(8 marks)**

ii) Netting of the loss against insurance recovery **(6 marks)**

b) Evaluate whether the FMD event should be regarded as a key audit matter (KAM) **(4 marks)**

c) Assuming that this is regarded as a key audit matter, state your firm's reporting responsibility relating to the KAM **(3 marks)**

3) **In relation to the audit of Bola Football club**

a) Comment on the implications of the previous year's qualified report on your current audit and state further procedures you should now take. Assume that the matter is material but not pervasive **(6 marks)**

b) Evaluate EIGHT business risks affecting Bola football club **(16 marks)**

c) Evaluate SIX risks of financial statement misstatement **(15 marks)**

Do not include risks relating to the lease of the stadium and players held for sale as these are to be dealt with separately

d) Recommend principal substantive procedures relating to the

i) Lease of the basic infrastructure of the stadium **(4 marks)**

ii) Treatment of players held for sale **(6 marks)**

CPE – FULL AUDIT QUESTION TWO

A+ ASSOCIATES

Your name is Ngula Ngako, an audit manager in A+ Associates, an audit firm registered with the Zambia Institute of Chartered Accountants providing a range of audit, advisory and related services. You have been appointed manager in charge of the audit of Mukwa Limited for the year ended 31st March 2025

It is 1 March 2025. A+ Associates has recently been appointed as auditor to Mukwa Limited, and you are planning your first audit which will be for the year ending 31 March 2025. Mukwa Limited sells a variety of plants, garden equipment and garden furniture to wholesale customers and to retail customers via a network of stores. The company was formed 13 years ago by Mike Mokola who is the Chief Executive Officer (CEO) and is the company's only shareholder. Mike is planning to retire within the next year and is intending to sell his shares in the company. The chairman of the company is Mr. Neto Lasha, who is also the minister of tourism

The audit engagement partner had a meeting with Mike Mokola and has advised you of the following:

In August 2024, the company began to refurbish the retail stores in order to incorporate cafes into each one. Refurbishment costs of K14.2m were recognised within property, plant and equipment and this was partly financed by a loan of K10m, which is to be repaid in five annual instalments commencing in September 2025. In November 2024, Mukwa Limited spent K400,000 on an advertising campaign and the cafes were opened in December 2024. The advertising expenditure has been included within intangible assets and is being amortised over 24 months as Mike Mokola expects the advertising to generate additional revenue for that period of time.

With its head office in Livingstone, Mukwa Limited sells a range of tropical plants. The tropical plants are very popular especially with the visiting tourists. Most of the tourists pay cash dollars for these plants and this has increased over the last three years. Mr. Mokola has indicated that this cash is normally kept in a special investment account in Europe and is used to import seeds from other tropical countries. Only Mr. Mokola has access to these funds. Additionally, Mr. Mokola takes time off every month to visit other tropical countries around the world

Mr. Mokola expressed his desire for a good auditor-client relationship and is hoping that we do not impose too many "pointless rules" on the company like previous auditors. He says that he likes to be left uninterrupted to run his business without being bothered. The previous auditors resigned following a disagreement with Mr. Mokola over state of internal controls at Mukwa Limited

In August 2024, Mukwa Limited began a project to develop new technology for maintaining the correct temperature and humidity in its greenhouses. The project is expected to be completed in August 2025 and Mukwa Limited has incurred costs of K350,000 which are recognised within intangible assets.

In May 20X5, a flood caused water damage to inventories of plants which had cost K425,000. The company believes that the plants can still be sold but at a reduced selling price.

The financial statements extracts are provided below

	Forecast 2025	2024
	(K'000)	(K'000)
Turnover	88,200	85,100
Gross profit	23,300	16,900
Operating profit	6,300	9,400
Receivables	16.300	9,365

Mike Mokola has attributed the increase in the receivables collection period to the absence of the credit controller, who has been on long-term sick leave since April 2025

Laws and Regulations – Building Regulations

In May 20X5, Mukwa Limited received notification that the building authority had received a complaint that the refurbishments had not been performed in accordance with building regulations. The building authority is currently investigating and, if found to be in breach of the regulations, Mukwa Limited would be required to remedy any deficiencies in addition to paying a fine. The total cost implications are estimated to be in the region of K1.5 million. Unfortunately, Mr. Mokola maintains that Mukwa Limited complied with all regulations and is not willing to take any further action regarding this breach.

Appointment of a Quality Engagement Reviewer (EQR)

Ms. Ann Besa was appointed as an engagement quality reviewer to review the audit of Mukwa Limited before the report was issued. She focused her attention on two main areas of the quality management of the audit:

A. Acceptance procedures
B. Contract Agreement and Pre-conditions of an audit
C. Engagement performance

The following are the extracts from her report:

A. Acceptance Procedures

Details of the initial assessment performed on Mukwa Limited prior to audit commencement is detailed below:

A+ Associates **Client Acceptance**	
Company name :	**Mukwa Limited**
Reference:	**To be obtained**
Previous auditors	**Panchito & Co**
Professional clearance obtained and reviewed	**Verbal, no issues**
Legal clearance	**Not applicable**
Intended users of financial statements	**Owners and management only**
Firm independence confirmed	**Yes**
Firm competence confirmed	**Yes**
Firm resources confirmed	**Yes**
Fess agreed	**Yes**
CDD (Client due diligence) procedures ➢ **Client identity confirmed** ➢ **Company identity confirmed** ➢ **Politically exposed persons at company** ➢ **Money laundering risk assessment**	 **Passport of owner and wife** **Certificate of incorporation obtained** **None** **Low risk**
Proposed partner:	**Not yet assigned**
Signature of partner and date:	
Letter of engagement	**Discussed with Mr. Mokola**
Pre-conditions of the audit	**Not applicable as new audit**

Apart from above, no other paperwork appears to be filled with this document

B. Contract Agreement and Pre-conditions of the audit

A+ Associates **Contract Agreement and Pre-conditions of the audit**	
Company name :	**Mukwa Limited**
Letter of engagement	**Discussed with Mr. Mokola, letter not yet signed**
Pre-conditions of the audit	**Not applicable as new audit**

C. Engagement Performance

- The members of the audit engagement team who carried out the audit of Mukwa Limited had previously audited educational organisations, not retail or manufacturing companies.
- The audit engagement partner held a planning meeting with the engagement team. However, several junior team members were unable to attend due to a training course which was held on the same day. No additional briefing on key audit risks associated with Mukwa Limited was held for these team members.

- The audit supervisor was absent due to illness during the last two weeks of the final audit. The audit assistants continued their work but no other senior team members were assigned to Mukwa Limited’s audit.
- Due to the audit supervisor’s illness and absence, the audit of intangible assets was reallocated from the audit supervisor to a junior member of the team who had never audited intangible assets before.

Requirements

1) **In relation to money laundering**
   a) Discuss the responsibility of A+ Associates with respect to money laundering
   (6 marks)

   b) Evaluate whether there are any indicators of money laundering activities associated with Mukwa Limited
   (10 marks)

2) **Compute the following ratios for 2024 and forecast 2025**
   i) Increase in Turnover
   ii) Gross profit margin
   iii) Operating margin
   iv) Receivable days

   (6 marks)

3) **Using the ratios computed above and other information,**
   a) Describe TEN audit risks **(20 marks)**

   b) For each risk, suggest an appropriate response to reduce the audit risk

   (10 marks)

4) **Describe FOUR substantive procedures which A+ Associates should perform in order to obtain sufficient and appropriate audit evidence in respect of ADDITIONS to Mukwa Limited's property, plant and equipment.**
   (8 marks)

5) **In relation to laws and regulations**
   a) Explain the responsibility of A+ Associates in relation to Laws and Regulations
   (5 marks)

   b) Comment on further action that A+ Associates should take given Mr. Mokola's unwillingness to deal with the breach of building regulations properly.
   (6 marks)

6) **In relation to the engagement quality review:**
   a) In relation to acceptance and contract procedures
      i) Conduct a review of the information contained in the Mukwa Limited acceptance and contract assessment and to evaluate SIX weaknesses in A+ Acceptance procedures
      (10 marks)

      ii) For each weakness, recommend appropriate improvements that should be implemented **(6 marks)**

   b) In relation to the Contract and Preconditions of the audit

i) Discuss the importance of the letter of engagement being finalised and comment on the implication of this letter not being signed whilst the audit has already commenced **(5 marks)**

ii) Evaluate the assessment that consideration of pre-conditions of an audit is not applicable for a new audit **(6 marks)**

c) In relation to engagement performance

i) Identify and evaluate FOUR engagement performance deficiencies in the approach adopted by A+ Associates **(8 marks)**

ii) For each deficiency provide a recommendation which would have addressed it to ensure compliance with quality management requirement **(4 marks)**

Total Marks 100