2026 FULL AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

SOLUTION ONE

SECTION A

(1) **Analysis of the findings contained in the Audit Monitoring Report**

- **Review of the firm** – The firm is grossly understaffed. ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* requires that the firm's system of quality management shall include policies and procedures addressing a number of components, including resources. Human resource is one of the important resources which a firm must have at its disposal.
  The standard requires that personnel should be given sufficient time to perform in line with the expectations of the firm's system of quality management. Should the firm have insufficient human resources, they may source it from outside the firm, provided they possess the appropriate level of capabilities and competence.

  Amama & Co. is a medium-sized and successful audit firm, which was formed twenty (20) years ago. There could be various reasons for this understaffing, but in the interest of quality, Amama & Co. should, as a short term measure, seriously consider sourcing the needed human resource from outside.

[Award marks as follows:

1 mark for reference to ISQM 1

1 mark for immediate need to outsource]

- **File no. 1** – The Auditor's report was dated 15th February, 2026, while the written representation on related party relationships and transactions was dated 18th February, 2026. ISA 580 *Written Representations* states that the date of the representation letter must be as near as practicable to, but not after, the date of the auditor's report on the financial statements. This is important because written representation is audit evidence which needs to be taken into account when forming an audit opinion.
  In this case, the written representation was dated after the auditor's report date. This technically means that the written representation was not taken into account when forming the audit opinion. There is a possibility that the audit opinion could have been different if the written representation was taken into account.

[Award marks as follows:

1 mark for reference to ISA 580

1 mark for impact on audit opinion]

- **File no. 2 –** An unmodified audit opinion was given, although a note from the Audit Senior stated that the client does not keep proper accounting records. It is a legal requirement that the company keeps proper accounting records. According to section 246 (1), of the companies Act, 2017, the board of directors shall cause accounting records to be kept that:—

(a) Correctly record and explain the transactions of the company; and
(b) Shall enable the financial:—
(i) Position of the company to be determined with reasonable accuracy; and
(ii) Statements of the company to be readily and properly audited.

There is an implied duty the auditor shall also determine whether an entity keeps accounting records. It is therefore questionable whether the unmodified audit opinion was appropriate given the serious breach of the provision of the companies Act, 2017.

[Award marks as follows:

1 mark for reference to Companies Act, 2017

1 mark for questionable unmodified audit opinion]

(2) BILLING

(a) Acceptability of hourly rates being used in the Republic of Zambia

The hourly rates being used by Amama & Co. are the same rates contained in Statutory Instrument (SI) 34 of 2018. The SI has since been revoked and ZICA issued Circular No. 1/2019. Now firms negotiate fees with their clients.

[Award marks as follows:

1 mark for reference to SI 34 of 2018

1 mark for acceptable]

(b) Quotation for the financial statement audit for Makishi Ltd

		Hours	Rate per hour	Value	Marks
			K	K	
Partner	4% X 25	1	11,112	11,112	1
Audit Supervisor	1/5 X 25	5	7,640	38,200	1
Assistant Auditors	(25 – 1 – 5)	19	4,862	92,378	1
				141,690	
Other costs	10% X 92,378			9,238	1
				150,928	
Profit	20/80 X 150,928			37,732	1
Chargeable fee				188,660	2
TOTAL MARKS					**7**

(c) Briefing notes

To: Charles Kalambo, Managing Partner

From: Audit Manager

Subject: Value-based billing

Introduction

These briefing notes evaluates value-based billing strategy which Amama & Co. is considering introducing.

Meaning of value-based billing

Value-based billing basically consists of grouping services into packages or bundles for which a fixed price will be set based on the perceived value by the customer. As a result, it requires understanding customers' needs so that value can be assessed. Costs and competitors' prices are disregarded.

Main advantages and disadvantage of value-based billing

The **advantages** of value-based billing include:

- Since value-based billing requires an understanding of what clients need, it enables the firm to provide quality services which are in line with their expectations.
- There is more focus on providing value to the firm's clients and this in turn may improve collaboration with clients and increase customer loyalty.
- Provides an opportunity to increase overall profit and productivity by charging more while potentially taking on fewer clients.

The **disadvantages** of value-based billing include:

- It requires more work. The first step is to identify the attributes of services that are valued by clients, and the second step is to measure that value.
- The perception of value could become a challenging task.
- This will require specialized skills and training or the engagement of consultants.
- It could result in loses if not handled properly.
- It may not have legal backing in the Republic of Zambia.

Conclusion

Value-based billing is a modern approach which could definitely have a positive impact on the profitability of the firm. It, however, may be advisable to consult the Zambia

Institute of Chartered Accountants (ZiCA) regarding the acceptability of value-based billing in the Republic of Zambia. All things being equal, this could be a good complement to the current traditional hourly-based billing, which has legal backing in the Republic of Zambia (SI 34 of 2018).

[Award marks as follows:

Up to 2 marks for format and presentation

1 mark for meaning of value-based billing

1 mark for each advantage – Maximum 2 marks

1 mark for each disadvantage – Maximum 2 marks

2 marks for suitable conclusion]

(3) FINANCIAL STATEMENT AUDIT OF ORANGE PLC

(a) Main ethical threats and suggested suitable safeguards

Ethical threats	Explanations	Safeguards
(1) Provision of non-assurance services to audit client	This would create a self-review threat to objectivity. This would arise because all of the other services would have an impact on the financial statement which the firm would then be responsible for forming an opinion on.	The ZiCA Ethics Code and the IESBA Code of Ethics for Professional Accountants prohibit firms from providing non-assurance services to public interest entities such as listed companies like Orange Plc. The firm should therefore stop performing non-assurance services.
(2) Invitation to attend a four (4) day Energy Indaba.	This will create a serious self-interest threat. The Engagement Partner may want to impress Orange Plc at all costs as a way of appreciating the good gesture. Objectivity will be adversely affected. For example, a number of misstatements could be overlooked. An intimidation threat may also result, especially if Orange Plc starts demanding certain favours like an unmodified audit opinion.	The Code states that the existence and significance of any threat will depend on the nature, value, and intent of the offer, and should not be accepted unless clearly trivial or inconsequential. The invitation should be declined as its value is clearly more than trivial or inconsequential.
(3) Establishment of a jointly owned enterprise.	This will create a significant self-interest threat to Amama & Co.'s independence. Seriously, Amama & Co. may not appear to be independent due this close business relationship.	Amama & Co. should discontinue the discussions if it wants to continue as the auditor for Orange Plc. The Code states that unless the financial interest is immaterial, and the business relationship insignificant, then no safeguards can reduce the

		threat to an acceptable level.

[Award marks as follows:

1 mark for each identified risk and explanation – Maximum 3 marks

1 mark for each safeguard – Maximum 3 marks]

(b) Principal audit risks and suggested key audit responses

Audit risks	**Explanations**	**Audit responses**
(1) New audit client	This gives rise to detection risk, as the firm does not have experience with the client, making it more difficult for the audit team to detect material misstatements. In addition, there is a risk that opening balances and comparative information may not be correct.	The audit team shall obtain a thorough understanding of the business of the company and perform specific audit procedures on the opening balances. There will also be need to undertake quality control review.
(2) Highly regulated sector	This could result in the company being liable to penalties for not adhering with the regulations. Provisions may be misstated in the financial statements.	The audit team should be alert and look out for any evidence of non-compliance with the new laws. The auditors may also obtain necessary representations from management that there has been compliance.
(3) Profitability is increasing while liquidity is decreasing.	This could be a sign of overtrading. The going concern status of Orange Plc may be questionable. There is a risk that preparing the financial on a going basis may be inappropriate, or risk of non- disclosure of material uncertainty related to going concern.	The audit team should review management assessment of going concern, including any actions management of Orange Plc intends to take to address any going concern problems.

(4) Increased competition in the sector	This will erode the margins and could impact on going concern of the company.	The audit team shall make enquiries of management regarding the impact of the increased competition and be alert to any indications of going concern problems.
(5) Problems regarding smart invoicing	There is a risk that the revenue could be misstated.	Use test data to examine the operations of smart invoicing system. If the system is not operating effectively, then perform detailed substantive procedures.
(6) Problems with receivables accounting section	There is a risk that receivable balance could be misstated.	Review the receivables aged analysis and confirm a sample of receivable balances using positive confirmation.
(7) Foreign currency transactions	There is a risk of using inappropriate exchange rates on retranslation of the figures contained in the financial statements, resulting in the misstatements of the corresponding figures.	The audit team must check whether all retranslations are in accordance with the guidance given in IAS 21 *The Effects of Changes in Foreign Exchange Rates.*

[Award marks as follows:

Up to 2 marks for identification and explanation of audit risk – Maximum 8 marks

1 mark for each audit response – Maximum 4 marks]

(c) Main purpose of the interim audit and suggested audit procedures which should be performed at the suggested interim stage

Main purpose of the interim audit in Orange Plc

The main purpose of the interim audit in Orange Plc is to contribute to the overall effectiveness and efficiency of the audit process. It will help Amama & Co. to understand Orange Plc’s operations, assess internal controls, and identify risks early in the financial reporting cycle.

Suggested audit procedures which should be performed at the suggested interim stage

The interim audit involves a range of procedures designed to assess internal controls, identify risks, and perform preliminary substantive testing. These procedures help auditors gather evidence early in the audit process, reducing the scope of work required during the final audit.

(1) Some of the relevant audit procedures in respect of risk assessment are:

- Gather information about Orange Plc’s operations, industry, and internal controls to identify potential risks of material misstatement.
- Perform analytical procedures to identify unusual trends, variances, or relationships that may indicate potential risks or misstatements.
- Engage with management and staff to gain insights into financial reporting processes, internal controls, and significant transactions.

(2) Some of the relevant audit procedures in respect of internal control testing are:

- Assess whether internal controls are appropriately designed and implemented to prevent or detect material misstatements.
- Test the operating effectiveness of key controls over financial reporting, particularly in areas where reliance on controls is planned for the final audit.
- Perform walkthroughs of key processes to understand how transactions are initiated, recorded, processed, and reported.

(3) Some of the relevant audit procedures in respect of substantive testing are:

- Perform substantive tests on account balances that are unlikely to change significantly by year-end, such as non-current assets, non-current liabilities, and prepaid expenses.
- Test transactions that occurred during the interim period to ensure they are recorded accurately and in accordance with applicable accounting standards.
- Verify that transactions are recorded in the correct accounting period, particularly for revenue recognition and expense accruals.

[Award marks as follows:

Up to 2 marks for purpose of interim audit

1 mark for each valid audit procedure – Maximum 6 marks]

SECTION B

(4) Report

To: The Partners – Amama & Co.

From: Audit Manager

Date: XX/XX/XXXX

Subject: Artificial Intelligence (AI) audit

Introduction

This report deals with the meaning of Artificial Intelligence (AI) audit, main aims of AI audits and also outlines the main stages of AI audits.

Meaning of Artificial Intelligence (AI) audit

An AI audit is a structured process for evaluating aspects of an AI system, including its design, algorithms, data, development and operation.

Main aims of AI audits

The main aims of AI audits are to verify that the system exhibits the following traits:

- **Functionality.** The AI system is accurate and reliable for its intended tasks.
- **Transparency.** There is sufficient understanding of how the system works, including its algorithms, inputs and outputs. This is often evaluated through interpretability or explainability.
- **Ethical behavior.** The system minimizes bias, harm and discriminatory outcomes for individuals or groups.
- **Compliance.** The AI system adheres to any applicable standards and regulations.

Main stages of AI audits

The main stages of AI audit can be summarized as follows:

1. **Define the audit's scope.** Establish the audit's main purpose, the AI systems or applications to evaluate, and the risks and impacts to be assessed.

2. **Gather documentation.** Collect detailed information about the AI system's functionality, intended use, and internal and external users.
3. **Assess data quality and preprocessing.** Identify the sources and provenance of training data, including the right to use that data to train AI models. Check for privacy violations and analyze whether the data composition could lead to biases and errors.
4. **Evaluate development and deployment processes.** Examine the types of algorithms used and their transparency. Assess whether protected categories such as gender or race are being used indirectly via correlated variables, and determine whether standard processes for deployment and post deployment performance monitoring are in place.
5. **Analyze user impact.** Check whether there have been any user complaints and confirm that end users are being informed about the organization's AI use. Depending on the use case, check for bias based on relevant fairness metrics, and test data privacy and application security.
6. **Check compliance.** Applicable regulations vary by industry, country and AI system, so follow regulation-specific guidance and use tailored checklists where applicable.
7. **Document findings and develop an action plan.** Create a report detailing issues discovered, supporting evidence and recommendations. Discuss the findings with key stakeholders and develop roadmaps for improvement, led by the internal auditor or audit team if applicable.

Conclusion

An AI audit is basically a wholistic assessment of the AI system. The main goal is to confirm that the system satisfies performance criteria and complies with regulatory requirements.

[Award marks as follows:

Up to 2 marks for presentation

2 marks for meaning of AI audit

2 marks for each valid aim of AI audit – Maximum 6 marks

2 marks for each valid stage – Maximum 10 marks

2 marks for conclusion]

(5) Discussion of the sufficiency and appropriateness of the evidence collected in respect of the three (3) matters, in Purple Ltd, and for each matter, recommendation of two (2) further audit procedures where necessary

(1) Inventory – A manual journal has been posted by the Financial Accountant to adjust the inventory figure by K3 million, so as to include seeds held by a third party in Kasumbalesa on behalf of Purple Ltd. A member of the audit team obtained a copy of the manual journal and filed it in the current audit file.

It is possible that the purported seeds held by a third party may not exist or even if they exist, the condition may bad. Hence, obtaining a copy of the manual journal and filing it in the current audit file is definitely not sufficient and appropriate audit evidence. Effectively no meaningful audit work has been performed. In addition, the inventory figure of K3 million may not have been computed using the lower of cost and net realizable value (NRV) as required by IAS 2 *Inventories*.

The following further audit procedures are recommended:

- Visit Kasumbalesa to confirm existence and condition of the seeds.
- Obtain the workings for the K3 million and confirm whether it has been arrived at using the lower of cost and net realizable value (NRV) as required by IAS 2.
- Recalculate the inventory figure to confirm arithmetical accuracy.
- Review the manual journal to confirm whether the details are correct.

[Awards marks as follows:

1 mark for reference to IAS 2

1 mark for existence/condition

1 mark for confirmation

1 mark for each valid further audit procedure – Maximum 3 marks]

(2) Depreciation – The audit work on depreciation was performed by an Audit Assistant. The Audit Assistant selected a sample of non-current assets and re-performed the depreciation computations. No material differences were noticed and the Audit Assistant concluded that the depreciation figure was fairly stated.

IAS 16 *Property, plant and equipment* gives detailed guidance on depreciation. An organization must select a method of depreciation, which must be used consistently. Any change must be properly disclosed.

Re-performing the depreciation computations, though relevant, is not sufficient. More audit work is required.

The following further audit procedures are recommended:

- Obtain a copy of company policy on depreciation and verify whether the depreciation computations are in accordance with the company policy.
- Discuss with management whether there has been any changes in the depreciation method.
- If there has been changes in the depreciation method, inspect the financial statements to confirm adequacy of the disclosure.
- Use an auditor's expert to confirm reasonableness of the economic useful lives and scrap values.
- Agree the depreciation figure to statement of profit or loss for the year under review.

[Award marks as follows:

1 mark for reference to IAS 16

1 mark for consistent use of method selected method

1 mark for disclosure of any change

1 mark for each further audit procedure – Maximum 3 marks]

(3) Government grant – Purple Ltd received a government grant of K1.4 million for the promotion of conservation farming. The Senior Auditor examined the grant agreement and confirmed that the accounting treatment was in line with guidance given in IAS 20 *Government Grants and Assistance.*

The relevant accounting standard for government grants is IAS 20 *Government Grants and Assistance.* Hence, the Senior Auditor has used an appropriate accounting standard. Given the audit work performed, it is possible that the audit evidence is significantly sufficient and appropriate.

However, the following recommended further audit procedures could still be relevant:

- Agree the amount received of K1.4 million to the bank statement and cash book.
- Obtain and review expenditure reports to check whether all amounts relate to the promotion of conservation farming as per the grant agreement.
- If non-compliance with the agreement is identified, check whether IAS 37 *Provisions, contingent liabilities and contingent assets* guidance has been used to any amount which is repayable.
- Use an auditor expert to review in detail the grant agreement to understand the exact work to be performed by Purple Ltd and technically verify through physical visits of selected beneficiaries' farms whether the promotion of conservation farming is visible.
- Interview a sample of beneficiaries to confirm progress made regarding promotion of conservation farming.

[Award marks as follows:

1 mark for use of appropriate accounting standard IAS 20

1 mark for reference to IAS 37

1 mark for repayable

1 mark for each valid further audit procedure – Maximum 3 marks]

(6) Evaluation of the suitability of the suggested contents of the training section in the programme for Guava Banking Corporation

The evaluation is based on section 23 (2) (c) of the *Financial Intelligence Centre (Amendment) Act* **[No. 16 of 2020].** This reads as follows:

"**on going training** for officers and employees to make them **aware** of the laws relating to money laundering, the financing of terrorism or **proliferation** or any other serious offence relating to money laundering, financing of terrorism or **proliferation**, to assist them in **recognizing** transactions and actions that may be linked to money laundering, financing of terrorism or **proliferation** or any other **serious** offence relating to money laundering, financing of terrorism or proliferation and instruct them in the procedures to be followed in those cases".

The contents in respect of the training section of the programme for Guava Banking Corporation is as follows:

"Guava Banking Corporation shall undertake **training** for officers and employees to make them **understand** the laws relating to money laundering, the financing of terrorism or any other serious offence relating to money laundering, financing of terrorism, to assist them in **analyzing** transactions and actions that may be linked to money laundering, financing of terrorism or any other **material** offence relating to money laundering, financing of terrorism and instruct them in the procedures to be followed in those cases".

The contents in respect of the training section of the programme for Guava Banking Corporation is significantly the same as per FIC Act. However, the following are some of the omissions or differences (as highlighted in bold above):

- "**On-going**" – Guava Banking Corporation's programme **does not include on-going** when describing the training. On-going training is very different from mere training. On-going training will demand that Guava Banking Corporation commits sufficient resources to the programme. Guava Banking Corporation must therefore include "on-going".
- "**Aware**" – Guava Banking Corporation's programme **uses the word "understand"** while the FIC Act uses the word "aware". Making people understand is more challenging than making them aware. Hence, the company should replace "understand" with "aware".
- "**Proliferation"** – Guava Banking Corporation's programme **does not include "proliferation"**. This means the company's programme will fall short of the legal requirements. The company must therefore include "proliferation" in its programme.

- **"Recognizing"** – Guava Banking Corporation's programme **uses the word "analyzing"** while the FIC Act uses the word "recognizing". Making people analyze is more challenging than making them recognize. Hence, the company must replace "analyzing" with "recognizing". The Compliance Officer or the Money Laundering Officer will be responsible for analyzing.
- **"Serious"** – Guava Banking Corporation's programme **uses the word "material**" while the FIC Act uses the word "serious". The company must replace "material" with "serious". This will ensure consistency with the law.

[Award marks as follows:

1 mark for identifying each omission or difference – Maximum 5 marks

1 mark for each evaluation – Maximum 5 marks]

SOLUTION TWO

SECTION A

(1) **BRIEFING NOTES**

To: Managing Partner

From: Senior Audit Manager

Subject: **Strategic alliance**

Introduction

These briefing notes explains the nature of the strategic alliance, the actions to taken to legalize this in Zambia and any professional ethics implications.

[Award professional marks as follows:

2 marks for format and 1 mark for introduction]

Nature of the strategic alliance

The International Code of Ethics for Professional Accountants (IESBA) states that firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct. (Para 400.50 A1)

When determining whether a network is created by a larger structure of the firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- It is clearly aimed at profit or cost sharing among the entities within the structure.
- The entities within the structure share common ownership, control or management.
- The entities within the structure share common quality management policies and procedures.
- The entities within the structure share common business strategy.
- The entities within the structure share the use of a common brand name.
- The entities within the structure share a significant part of professional resources.

The IESBA code states that professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit methodology or audit manuals.
- Training courses and facilities.

An example of significant part of professional resources is that the shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or when a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

The proposed strategic alliance will involve the following:

- Use of common name;
- Use of common quality control policies and procedures; and
- Share of a significant part of professional resources that is, exchange personnel and a requirement to follow technical advices given from time to time.

The strategic alliance between Sakala & Chama Associates and Westfield Chartered Accountants therefore qualifies to be a network arrangement.

[Award marks as follows:

1 mark reference to IESBA code

Up to 3 marks for guidance on determination of network

Up to 3 marks for application network determination to the strategic alliance

1 for conclusion that network exist]

Actions to taken to legalize the strategic alliance in Zambia

In Zambia, there is legislation regarding such strategic alliances. The key legislation are:

(1) Registration of Business Names Act 2011

(2) Accountants Act 2008

For example, section 24(3) of the Accountants Act 2008 states that a firm of chartered accountants shall notify the Institute of any change in its name, composition, address or other information as may be prescribed, not later than thirty days after the date on which such change than place.

It will therefore be advisable for Sakala & Chama Associates to seek legal advice.

[Award marks as follows:

1 mark for reference to Registration Business Names Act 2011

Up to 2 marks for reference to Accountants Act 2008

1 mark for advice to seek legal advice]

Professional ethics implications

Network firms have to be independent of audit clients of other network firms, which implies the need for a pro-active system to identify independence issues throughout the network. In doing this, network firms need to take account of a variety of independence requirements around the world, which sometimes means having to apply the most stringent requirements across the board.

There is some guidance in the IESBA code at paragraph R400.51.

The guidance is important because serious ethical threats could result such as:

- Undue influence on the audit through intra network control or other means of exerting influence – in which case the network firms should be independent of the audit client; or
- Networks acting in such a way the reasonable and informed third party would consider them to be one firm and therefore it would look very odd and unconducive to public confidence if the network firms were not independent of each others' clients.

[Award marks as follows:

1 mark for independence

1 mark for reference to IESBA code guidance

1 for any possible ethical threat]

(2) BANANA PLC

(a) Key financial statement assertions

(1) Completeness – the lease is included on the schedule of all leases reported in the financial statements.

(2) Existence – the leased asset and contract exist.

(3) Valuation – the lease has been valued properly, with accurate present value calculations.

(4) Cut-off – the lease is recorded in the proper accounting period.

(5) Rights and obligations – Banana Plc has the right to use the leased asset and obligation to make payments.

(6) Presentation/disclosure – leases are properly presented and lease details, terms, expenses, cash flows, and other information are disclosed as required by IFRS 16 *Leases*.

(7) Occurrence – the lease allocates properly the liability and clearly structure when contractual obligations trigger or dissolve.

[Award 1 mark for each key financial statement assertion – Maximum 4 marks]

(b) Risks of material misstatement

- There a risk that the lease may not be reported in the financial statements
- There is possibility that the leased asset and contract do not exist.
- A wrong discount rate may be used when computing the present value of the lease liability contrary to the guidance given by IFRS 16.
- The legal costs may not be included in the value of the right-to-use asset.
- The depreciation of the right-of-use asset may be incorrectly computed.
- The lease may not be shown in the correct accounting period.
- The contract may not give Banana Plc the right to use the leased asset and the obligation to make payment.
- The presentation/ disclosure may not comply with IFRS 16 requirements.

[Award 1 mark for each risk – Maximum 4 marks]

(c) Audit procedures

- Obtain the lease agreement and inspect the financial statements to confirm that the lease in question is included in the financial statements.
- Check that the key inputs used to calculate present value, such as payment stream, lease term, and discount rate, are supported by the lease contract.
- Recalculate present value calculation to verify appropriate valuation and allocation in accordance with IFRS 16 requirements.
- Check the financial statements to confirm that disclosure/presentation is in accordance with IFRS 16 requirements.
- Review the lease contract to ensure they properly convey the right to use the identified asset and the obligation to fulfill payment terms.
- Check the lease commencement date to confirm that the lease is recorded in the correct reporting period.

[Award up to 2 marks for each valid audit procedure – Maximum 12 marks]

(3) CHIWEMPALA UNIVERSITY

Frauds	**Control**	**Justification**
(1) Inflated invoices for goods and services provided.	Use data analytics. Establish a procurement committee made up of experienced personnel with diverse expertise. Regular and surprise audits by internal audit. Implement automated controls which will be able to check the reasonableness of invoices.	To identify anomalies or patterns indicative of fraud. To make it easy to identify inflated invoices and services provided. To act as a deterrent to those who want to commit the fraud. To detect irregularities in payment processes.
(2) Misuse of research funds for a project involving mine waste management and tailings disposal.	Implement proper authorization processes, preferably an independent committee should be established. Analyze expenditure data.	To ensure that funds are used for their intended purposes and that there are no undisclosed relationships between researchers and external entities. To look for patterns of non-research-related spending, unusual spending categories, high personal expense amounts etc.
(3) Tuition payment diversion.	Chiwempala University must introduce segregation of duties. Introduce specific monthly management oversight meetings.	To reduce fraudulent activities except through collusion. To provide a high-level control which will facilitate

		decisive actions to be taken on any fraud.
(4) Payment for unworked overtime.	Introduce appropriate approvals for all overtime. Implement periodic reporting of overtime usage.	To ensure only legitimate needed overtime is worked and paid for. To facilitate early detection of unusual trends in overtime usage and take timely corrective action.
(5) Professors and other academic staff inflating grades for favoured students.	Develop clear policies and procedures, which must include academic integrity and clear disciplinary measures in respect of unethical behaviour regarding marking and grading. All markers should undergone extensive training in marking and grading. Implementation of transparent internal and external moderation processes.	To act as a deterrent to unethical behaviour. To ensure management sets the right tone at the top. To facilitate detection of bias or unfairness in marking and grading.
(6) Cybercrime involving an Accounts Officer.	Use software to generate passwords with maximum amount of characters for sensitive accounts and data (that is, long secure passwords). In case of need, it should possible to use the software to remember these long string of numbers and letters.	To minimize the possibility of guessing passwords, since the longer the password, the longer it would take, even for software, to guess the password and the less likely cybercriminals will be able to gain access.

[Award marks as follows:

1 mark for each recommended control – Maximum 6 marks

1 mark for each justification – Maximum 6 marks]

SECTION B

(4) RIVER MOTELS

Matters to consider before accepting the invitation to perform an agreed-upon procedures

ISRS 4400 *Engagements to perform agreed-upon procedures regarding financial information (Revised)* states that the practitioner shall accept or continue the agreed-upon procedures engagement only when:

- The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
- The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
- The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation;
- The practitioner has no reason to believe that relevant ethical requirements will not be complied with; and
- If the practitioner is required to comply with independence requirements, the practitioner has no reason to believe that the independence requirements will not be complied with.

[Award marks as follows:

1 mark for reference to ISRS 4400

1 mark for each matter – Maximum 5 marks]

Action to take in view of the Managing Partner's revelation

ISRS 4400 (Revised) states that the practitioner shall not accept or continue the engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. The standard gives a number of examples, which include the procedures are selected in a manner intended to bias the intended users' decision-making.

The revelation by the Managing Partner therefore means that Sakala & Chama Associates must not accept the agreed-upon procedures engagement.

[Award marks as follows:

Up to 2 marks for ISRS 4400 guidance

Up to 2 marks for must not accept]

(5) LAKE PLC

Issue one – Incorrect recognition of VAT on building material imports (K472,000) and Excess materials spoiled during construction (K46,000).

(a) Matters to consider

- Materiality – The total of the amounts incorrectly recognised is K518,000 (K472,000 + K46,000). This is immaterial to both the statement of financial position and statement of profit or loss at 0.5% of total assets (518,000/108,000,000 X 100%) and 2% of profit before tax (518,000/24,000,000 X 100%) respectively.
- Impact on financial statements – the value of the building is overstated resulting in overstatement of depreciation. The risk is that profits are understated while assets are overstated.
- Relevant accounting standard – Under IAS 16 *Property, plant and equipment,* the recoverable input VAT and the excess materials spoiled during construction should not be included in the initial cost.
- Impact on audit opinion – Since the misstatement of K518,000 is immaterial, the audit opinion will be unmodified.

(b) Evidence

- A schedule of the costs incurred in the construction
- Workings for the depreciation

[Award marks as follows:

1 mark for materiality

1 mark for impact on financial statement

1 mark for relevant accounting standard and treatment

1 mark for impact on audit opinion

1 mark for each audit evidence – Maximum 2 marks]

Issue two – Breach of data protection regulation

(a) Matters to consider

- Materiality – The breach of data protection regulation could be material by nature.

- Impact on financial statements – There is a risk that the provision regarding fines and penalties for non-compliance could be omitted or understated in the financial statements. The profit could be overstated and the liabilities understated.

- Relevant accounting standard – IAS 37 *Provisions, contingent liabilities and contingent assets* requires a provision to be recognized if:
  (i) An entity has a present obligation as a result of a past event;
  (ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
  (iii) A reliable estimate can be made of the amount of the obligation.

- Impact on audit opinion – This will depend on the pervasiveness of the issue. If the issue is considered to be material but not pervasive, a qualified audit opinion will be appropriate. However, if the issue is considered to be both material and pervasive, then an adverse audit opinion will be appropriate.

(b) Evidence

- Copy of the data protection regulation and any correspondence from the regulatory body
- Copy of draft financial statements

[Award marks as follows:

1 mark for materiality

1 mark for impact on financial statements

1 mark for relevant accounting standard and treatment

1 mark for impact on audit opinion

1 mark for each audit evidence – Maximum 2 marks]

Issue three – Gift to Chief Executive Officer's (CEO's) wife

(a) Matters to consider

- Materiality – the transaction is material by nature because it is a transaction between the company and a close relative of a member of key management personal. Hence, the Audit Senior's view is incorrect.
- Impact on financial statements – the non-recognition of the loss on disposal means both the profit and the assets are overstated.
- Relevant accounting standards – IAS 16 requires that an item of plant, property and equipment should be derecognized on disposal of the item or when no future economic benefits are expected from its use or disposal. Hence, Lake Plc must derecognize the industrial photocopier and recognize a loss on disposal of K60,000 in the statement of profit or loss. In addition, since it is a related party transaction, disclosure is required in accordance with IAS 24 *Related Party Disclosures*.
- Impact on audit opinion – the misstatement is material but is unlikely to be pervasive and as such the audit opinion will need to be modified if the necessary amendments are not made. The modified audit opinion will be in the form of qualified audit opinion.

(b) Evidence

- Copy of relevant board minutes and resolution applying to the transaction
- Copy of the financial statements

[Award marks as follows:

1 mark for materiality

1 mark for impact on financial statements

1 mark for relevant accounting standard and treatment

1 mark for impact on audit opinion

1 mark for each audit evidence – Maximum 2 marks]

(6) EVALUATIONS OF SUGGESTED AUDIT OPINIONS AND RECOMMENDATIONS

- **Client one** – Materiality is an important issue which auditors' consider when deciding on an appropriate audit opinion to give. In this case, the overstatement of K350,000 is immaterial. Hence, the auditors will not give a modified audit opinion.
  The suggestion by the Audit Senior for unmodified audit opinion is appropriate, given that overstatement is immaterial.

[Award marks as follows:

1 mark for immaterial

1 mark for suggested audit opinion appropriate]

- **Client two** – The garage is currently being used at twenty (20) percent of capacity. Management has estimated that it generates a commercial return when usage is at sixty-five (65) percent. The parking charges have remained unchanged for the past three (3) years and there is no intention to increase the parking charges in the near future. This clearly demonstrates that the issue of impairment loss of K5 million is material and could even impact on going concern of the garage. Hence, the suggested unmodified audit opinion is inappropriate. In addition, the use of other information section is wrong, since according to ISA 720 (revised), other information is defined as financial and non-financial information, other than the audited financial statements, that is included in entities' annual reports.

  The misstatement is definitely material and is likely to be pervasive. The appropriate audit opinion is an adverse audit opinion.

[Award marks as follows:

1 mark for materiality

1 mark for pervasiveness

1 mark for ISA 720

1 mark for suggested audit opinion inappropriate

1 mark for adverse audit opinion]

- **Client three** – The misstatement in the valuation of K53,000 is immaterial to both the statement of profit or loss and the statement of financial position at 1.6% of profit before tax (K53,000/K3,400,000 X 100%) and at 0.27% of total assets (K53,000/K20,000,000 X 100%) respectively. Hence, the Auditor Senior's suggestion of a disclaimer of audit opinion and emphasis of matter is inappropriate. It is also important to note that a disclaimer of audit opinion is given when the lack of sufficient and appropriate audit evidence is both material and pervasive.
  In this case, there is a misstatement not lack of sufficient and appropriate audit evidence. In addition, emphasis of matter paragraph is included in the audit report when the audit opinion is unmodified. Hence the suggestion by the Audit Senior is totally inappropriate.
  The appropriate audit opinion is an unmodified audit opinion.

[Award marks as follows:

1 mark for calculation

1 mark for immaterial

1 mark for disclaimer of opinion inappropriate

1 mark for comment on emphasis of matter

1 mark for unmodified audit opinion appropriate]

Client four – The client has correctly accounted for the growing cane as guided by IAS 41 *Agriculture*. The auditors also carried out various satisfactory audit procedures including obtaining an understanding of the competence and expertise of management's expert involved in the valuation process. Hence, the Audit Senior's suggestion of an unmodified audit opinion is appropriate.
Valuation of growing cane involves significant management judgement in the estimation of the sucrose content and price. According to ISA 701, this matter could be included in the Key Audit Matter (KAM) paragraph given that it could have been one of the matters of most significance in the audit of the financial statements of the current period and was definitely communicated with those charged with governance.

[Award marks as follows:

1 mark for correct accounting

1 mark for satisfactory audit procedures

1 mark for unmodified audit opinion appropriate

1 mark for one of most significance

1 mark for communication with those charged with governance

1 mark for KAM]

- **Client five** – Compliance with regulatory requirements and risk management are cardinal in the insurance industry. This helps maintain stakeholders' trust and confidence. Hence, omitted notes to the financial statements on compliance and risk management may be considered to be both material and pervasive to the financial statements. It will be clearly inappropriate to include these in the management report (Management letter).

  The suggested adverse audit opinion is therefore appropriate.

[Award marks as follows:

1 mark for stringent in insurance industry

1 mark for material and pervasive

1 mark for management report (Management letter) not appropriate

1 mark for adverse audit opinion appropriate]

END OF SOLUTIONS