COMPETENCE PRACTICE EXAMINATION

AUDIT PRACTISING CERTIFICATE

JUNE 2026

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.

2026 FULL AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

QUESTION ONE

BACKGROUND

Amama & Co. is a medium-sized and successful audit firm, which was formed twenty (20) years ago by Charles Kalambo. The firm is duly registered with the Zambia Institute of Chartered Accountants (ZiCA). It now has twelve (12) partners whose responsibilities are specified in the partnership deed. Charles Kalambo is the Managing Partner.

Last year, Charles Kalambo spotted the potential of Artificial Intelligence (AI) audits and Amama & Co. made the required investment in order to take advantage of this opportunity. Most audit firms, except the big four (4) are not taking advantage of the increasing demand for AI audits. Charles Kalambo confidently expects that AI audits will be the audit of choice for most clients in the near future. Targeted training has been conducted for senior staff.

At a recent meeting of the management of Amama & Co., the Finance Director, Elizabeth Astridah Kadimba, submitted a paper on the firm's billing for discussion and consideration. She made a very strong case for changing from traditional hourly pricing to value-based billing. Charles Kalambo is also keen on introducing a new pricing model and has heard about the value-based billing.

The Practice Review Department of the Zambia Institute of Chartered Accountants (ZiCA) has just released an Audit Monitoring Report. This followed their visit last month and the outcome of the visit has been classified as **"Un*satisfactory"***. The Managing Partner wants a detailed analysis of three key findings.

You have just started a new job as an Audit Manager at the Amama & Co., and you are currently responsible for the following assignments:

(1) Analysis of three key findings in the Audit Monitoring Report.

(2) Firm's billing.

(3) Orange Plc – Audit of the financial statements.

(4) Apple Plc – Artificial Intelligence (AI) Audit.

(5) Purple Ltd – Audit of the financial Statements.

(6) Guava Banking Corporation – Evaluation of the FIC programme.

ANALYSIS OF THREE KEY FINDINGS IN THE AUDIT MONITORING REPORT

The key findings were as follows:

- **Review of the firm** – The firm is grossly understaffed.
- **File no. 1** – The Auditor's report was dated 15^{th} February, 2026, while the written representation on related party relationships and transactions was dated 18^{th} February, 2026.
- **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.

FIRM'S BILLING

Amama & Co.'s approved hourly rates are as follows:

Senior/ Managing Partner	Partner	Senior Manager	Manager	Supervisor	Audit Senior	Semi-Senior	Assistant - Auditor
K13,334	K11,112	K10,418	K8,334	K7,640	K6,250	K5,556	K4,862

You have been asked to prepare a quotation for a potential financial statement audit client, Makishi Ltd, using the current traditional hourly billing based on the following details:

(i) This is estimated to take a total of 25 hours with the Partner spending 4% of the time while the Audit Supervisor will spend a fifth of the time and the rest of the time will be taken by the Assistant Auditors.

(ii) The recovery of other costs has been fixed at a rate of 10% of the Assistant Auditors' time, and the firm's policy is to charge a profit margin of 20%.

Charles Kalambo has also requested you to prepare briefing notes on value-based billing which will be used to evaluate the Finance Director's submission.

ORANGE PLC

Amama & Co. was appointed external auditor for Orange Plc on 15 December 2025. Orange Plc was incorporated in 2023. Until recently, your firm has provided payroll and tax computation services. The directors have decided to have the financial statements audited and have asked if the audit firm will become the company's auditors, as well as continuing to provide the existing services.

Orange Plc is an oil marketing company which also provides alternative energy options to households in the Republic of Zambia, such as battery energy, LPG and biomass energy. Last month, you attended a monthly meeting of audit partners and managers at which the audit of Orange Plc was discussed. The meeting decided that the audit should be performed in two sittings – interim audit and final audit.

You are currently planning the interim audit of Orange Plc for the financial statement audit for the year ended 30 September 2026. You recently held an initial meeting with the Finance Director at which a number of issues were discussed.

The energy sector is highly regulated and non-compliance attracts punitive fines. There has been instances when the Energy Regulation Board (ERB) has summoned the board of directors to answer to a number of issues. Pricing for petrol, diesel, jet fuel and paraffin are revealed on a monthly basis and the public has been complaining that the company's filling stations always seem to run out of fuel a week before the month-end.

On 1 April, 2026, Orange Plc obtained its listing on the Lusaka Securities Exchange (LuSE). The latest management accounts show that profitability is increasing while liquidity is decreasing. The government recently introduced tax incentives which have attracted a number of multinational enterprises into the industry. Orange Plc is experiencing a lot of problems regarding smart invoicing, and the receivables accounting section which is headed by an unqualified accountant.

The Chairperson of the board of directors has invited the Engagement Partner to attend a four (4) day Energy Indaba which has been organized by the Energy Regulation Board (ERB). This will be held in a five (5) star hotel in Livingstone. All the expenses, including an out-of-pocket allowance of K15,000 per day will be paid by Orange Plc.

All supplies are paid for in United States dollars (US$) and latest management accounts show that as at 30 June 2026, the payable balance was US$10 million compared to US$32 million at the same time last year.

The Managing Director for Orange Plc and the Engagement Partner are discussing the establishment of a jointly owned enterprise which will specialize in the importation and installation of solar panels, given the increased demand for solar energy.

APPLE PLC – ARTIFICIAL INTELLIGENCE (AI) AUDIT

Apple Plc is a software engineering company which has developed and deployed Artificial Intelligence (AI) systems in its operations. At the last Annual General Meeting, the shareholders commended the board of directors and management of Apple Plc for the initiative but resolved that an AI audit should be conducted.

Amama & Co. has been asked to conduct the AI audit. The Engagement Partner has requested you to prepare a report on AI audits which he will use at the upcoming short training session with the audit team.

PURPLE LTD – AUDIT OF THE FINANCIAL STATEMENTS

The final audit of the financial statements for Purple Ltd for the year ended 30 June 2026 is in progress. The company is a significant audit client which produces quality seeds which are sold both locally and overseas. You are currently evaluating the sufficiency and appropriateness of audit evidence collected by the audit team in the following areas:

(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.

(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.

(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.*

GUAVA BANKING CORPORATION – EVALUATION OF THE FIC PROGRAMME

Guava Banking Corporation holds a licence to operate as a commercial bank issued under the Banking and Financial Services Act. The Audit Committee held a meeting to consider a programme for the prevention of money laundering, financing of terrorism or proliferation or other serious offence relating to money laundering, financing of terrorism or proliferation, developed by management. Board of directors' approval is scheduled for next Monday. The audit committee members resolved to engage Amama & Co. to quickly evaluate the following contents in respect of the training section of the programme:

"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".

SECTION A

Required:

(1) Analyze the key findings contained in the Audit Monitoring Report. (6 marks)

(2) Using the information provided under billing:

(a) Explain whether the hourly rates being used by Amama & Co. are acceptable in the Republic of Zambia. (2 marks)

(b) Prepare a quotation for the financial statement audit for Makishi Ltd. (7 marks)

(c) Prepare briefing notes to Charles Kalambo which evaluates the value-based billing strategy. (9 marks)

(3) For the financial statement audit of Orange Plc:

(a) Explain three (3) main ethical threats and suggest suitable safeguards. (6 marks)

(b) Discuss four (4) principal audit risks and suggest key audit responses. (12 marks)

(c) Discuss the main purpose of the interim audit and suggest six (6) audit procedures which should be performed at the suggested interim stage. (8 marks)

[Total: 50 marks]

SECTION B

(4) For the benefit of the partners, prepare a report which clearly: (22 marks)

(a) Explains what is meant by Artificial Intelligence (AI) audit;

(b) Discuses the main aims of AI audits; and

(c) Outline five (5) main stages of AI audits.

(5) Discuss the sufficiency and appropriateness of the evidence collected in respect of the three (3) matters, in Purple Ltd, and for each matter, recommend three (3) further audit procedures where necessary. (18 marks)

(6) Evaluate the suitability of the suggested contents of the training section in the programme for Guava Banking Corporation. (10 marks)

[Total: 50 marks]

QUESTION TWO

BACKGROUND

In the early 1990s, Coppers & Bancroft Chartered Accountants, a global firm, embarked on a restructuring strategy aimed at improving its overall profitability. There was pressure to reduce costs and remain competitive. A year later, a decision was made to cease operations in the Republic of Zambia. However, two (2) of the local partners immediately established a new accountancy firm so as to continue servicing the former Coppers & Bancroft Chartered Accountants' clients. The firm was called Sakala & Chama Associates.

The local partners ensured all employees were retained by positively enhancing their conditions of service. For the first two (2) years, clients responded positively as Sakala & Chama Associates continued to offer quality services at relatively low fees. However, in the past five (5) years, Sakala & Chama Associates has witnessed a significant decline in income. This is mainly attributed to the loss of four (4) large clients who complained about the change of name. Most overseas shareholders had never heard of Sakala & Chama Associates and therefore doubted its ability to perform quality professional assignments. Various meetings have been held by the partners to address the issue. On 1 September, 2025, the Partners unanimously agreed to enter into a strategic alliance with a foreign firm, called Westfield Chartered Accountants.

Westfield Chartered Accountants is an international audit firm, with significant presence in all the continents. It performs both assurance and non-assurance services. The strategic alliance will involve Sakala & Chama Associates using the name "Westfield Chartered Accountants" and other forms of cooperation. The strategic alliance is yet to be finalized, since one of the partners has expressed concern regarding the level of detail provided in the draft agreement. You were recently promoted as a Senior Audit Manager at Sakala & Chama Associates. You are currently responsible for the following engagements:

(1) Preparation of a briefing paper on the proposed strategic alliance.

(2) Audit of the financial statements for Banana Plc.

(3) Recommendation of internal controls for Chiwempala University.

(4) Agreed-upon procedures engagement for River Motels.

(5) Review of working papers for the financial statement audit of Lake Plc.

(6) Evaluation of suggested audit opinions for clients.

STRATEGIC ALLIANCE

Westfield Chartered Accountants is a lead firm in an already established strategic alliance of audit firms. It describes itself as a global coordinating entity of independent member of firms that provides audit, tax and advisory services to a wide variety of public and private sector organizations.

In addition to using the same name, Sakala & Chama Associates would like to get associated with Westfield Chartered Accountants through common quality control policies and procedures including the exchange of personnel.

Westfield Chartered Accountants has a technical department and all strategic alliance firms are required to follow technical advices given from time to time. Serious sanctions exist for non-compliance with technical advices provided.

AUDIT OF THE FINANCIAL STATEMENTS FOR BANANA PLC

You have received the following email from the Engagement Partner:

To: Senior Audit Manager

From: Engagement Partner

Subject: **Audit of the financial statements for Banana Plc**

Last week when you went for the CPD workshop, I had a meeting with the newly recruited Audit Manager to review progress regarding the audit of the financial statements for Banana Plc for the year ended 30 June 2025. The audit team is having challenges regarding the audit of the leasing transaction the company entered into.

Banana Plc entered into a six (6)-year lease commencing 1 July, 2024. The terms are six (6) payments of K120,000, commencing on 1 July, 2024, and annually thereafter.

Legal costs to set up the lease incurred by Banana Plc were K12,750.

The Director of Finance has communicated that the Annual General Meeting (AGM) will now be held on 15 September 2025, instead of 30 September, 2025 as earlier advised. The Republican President has called for a meeting with the major shareholder and board members on 30 September 2025.

Kindly assist them so that the completion of the audit is not delayed.

Thank you.

AUDIT OF THE FINANCIAL STATEMENTS FOR CHIWEMPALA UNIVERSITY

Chiwempala University was established by an Act of Parliament in 1970 and it is located in Chingola. Last year, Chiwempala University engaged an independent firm to conduct a forensic investigation and the following frauds were discovered in some functions:

(1) Inflated invoices for goods and services provided – The forensic investigation team discovered significant inflated invoices in the support services function which provides operational support for campus utilities, dining services and housing. The Procurement Function is headed by the Chief Procurement Officer supported by three (3) qualified procurement officers. The procurement system is computerized.

(2) Misuse of research funds for a project involving mine waste management and tailings disposal – The forensic investigation team discovered that K4.2 million of the research funds were misused. All research funds are controlled by the Vice-Chancellor and the Director of Finance.

(3) Tuition payment diversion – The Deputy Bursar diverted K1.8 million into his personal bank account during the period under review. He is responsible for receiving and recording all tuition payments.

(4) Payment for unworked overtime – The University lost K2 million through payment for unworked overtime. Employees are required to clock into the computerized system at the beginning of work or shift and then clock out when they leave.

(5) Professors and other academic staff inflating grades for favoured students – The forensic investigation team identified eighty-five (85) instances of inflated grades. The grading is done by the respective professors and other academic staff. The Examinations Officer summarizes these and then submits them to the Senate for approval before they are officially released.

(6) Cybercrime – An Accounts Officer, through trial and error regarding various passwords, was able to gain access to sensitive data regarding the University's enrolments, bank accounts and academic work. He then engaged his friends to threaten the University that the data will be exposed if the University failed to pay the ransom demanded of K4 million. The University quickly paid the K4 million and was able to recover the sensitive data. The forensic auditors were able to identify the perpetrators after conducting extensive information seeking and admission seeking interviews.

However, the recommendations to address these frauds were missing in the forensic report as they were not part of the agreed terms of reference. Sakala & Chama Associates has been engaged to specifically recommend controls which will address these frauds.

AGREED-UPON PROCEDURES ENGAGEMENT FOR RIVER MOTELS

Sakala & Chama Associates has received a request from River Motels about an agreed-upon procedures to be performed on the payroll and sustainability systems. River Motels is not currently a client of Sakala & Chama Associates.

River Motels has elaborate policies and procedures which focus on staff motivation. There is a strong belief that motivated staff deliver excellent service, resulting in increased profitability.

At the beginning of the year 2025, River Motels introduced sustainability policies and procedures following a research carried out by an independent consultancy firm which showed that many guests are now interested in staying at eco-friendly motels. The initial focus related to investing in better light bulbs that use less energy and has longer life spans.

The agreed-upon procedures to be perform include:

(1) Obtain from Human Resource Manager of River Motels, a listing of all contracts of employment signed between 1 April, 2025 and 30 September, 2025 and identify all male employees who get less than the minimum wage contained in the Employment Legislation.

(2) Identify all suppliers of light bulbs and check whether they are registered with the Regulatory Authorities.

The Managing Partner of Sakala & Chama has revealed that he is aware that the procedures have been selected in a manner intended to bias those charged with governance's decision-making.

REVIEW OF WORKING PAPERS FOR THE FINANCIAL STATEMENT AUDIT OF LAKE PLC

The final audit for the year ended 31 August 2025 is almost complete and you are reviewing the audit working papers. The draft financial statements recognize total assets of K108 million (2024 – K97 million), revenue of K72 million (2024 – K55 million) and profit before tax of K24 million (2024 – K18 million). The following three (3) issues, which are summarized below, have been brought to your attention:

(1) Lake Plc completed constructing a factory building on 1 August 2025 and immediately brought it into business use. The company has recognised a total cost of K3.2 million. Some of the costs included in the total cost are as follows:

- Purchase of land K500,000
- VAT on building material imports (recoverable) K472,000
- Site preparation cost K25,000
- Discounted cost of dismantling the factory building at end of life K40,000
- Excess materials spoiled during construction K46,000

(2) During the audit, the audit team became aware of a breach of data protection regulation, whereby an employee of the company had made its customer database available to a third party. The breach is not reflected anywhere in the financial statements.

(3) As part of the asset verification exercise, the audit team was unable to locate an industrial photocopier which was bought on 16 June, 2022. When the audit team asked the Finance Director, he responded that the industrial photocopier was given as a gift to the wife to Chief Executive Officer (CEO), who runs a very successful business centre. The carrying amount was K60,000 and the audit team has obtained satisfactory audit evidence regarding board approval. The Audit Senior is of the view that the amount is clearly immaterial and as such, there is no need to propose any amendments.

EVALUATION OF SUGGESTED AUDIT OPINIONS FOR CLIENTS

The Engagement Partner has requested you to evaluate the suitability of the suggested audit opinions regarding the following clients:

- **Client one** – The client is involved in processing pineapples and mangos, and makes a range canned fruit and fruit juice. An inventory count was properly conducted at the year-end and auditors from Sakala & Chama Associates were in attendance. After a detailed review of the inventory valuation workings, the audit team discovered an immaterial overstatement of K350,000 but Management has refused to make the required amendment.
  The Audit Senior has suggested an unmodified audit opinion.

- **Client two** – This is one (1) of the four (4) university teaching hospitals in the Republic of Zambia. It is also audited by the Supreme Audit Institution (SAI). It has a parking garage which is correctly classified as a cash-generating asset. Both the SAI and Sakala & Chama Associates have raised the issue of impairment loss which management have failed to recognise in the financial statements due to political pressure. 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. There is no intention to increase the parking charges in the near future, especially that the general elections will be held next

year. The parking garage has a carrying amount of K12 million while the recoverable amount is K7 million.
The Audit Senior has suggested an unmodified audit opinion and the inclusion of the issue in the other information section of the audit report.

- **Client three** – The client's Audit Committee has requested Sakala & Chama Associates to ignore the misstatement identified in the valuation of a K1.2 million debt instruments purchased on 1 March 2025. The client determined that the debt instrument was credit impaired at the time of purchase. The misstatement in the valuation is K53,000. The draft financial statements recognize total assets of K20 million and profit before tax of K3.4 million.
  The Audit Senior has suggested a disclaimer of audit opinion and an emphasis of matter paragraph.

- **Client four** – The client is the biggest sugar producer in the COMESA region. The company carries its growing cane at fair value in accordance with IAS 41, *Agriculture*. The growing cane valuation is based on the estimated sucrose content (adjusted for the Company's long-term view of the average maturity of the cane) and the estimated sucrose price for the following season, less the estimated costs for harvesting and transport. There is significant management judgement in the estimation of the sucrose content and price, expected cane yield and average maturity of the growing cane. As at the year-end, the fair value of growing cane was estimated at K230 million. Various satisfactory audit procedures were carried out including obtaining an understanding of the competence and expertise of management's expert involved in the valuation process.
  The Audit Senior has suggested an unmodified audit report and has asked you to advise where else this matter could be reflected in the audit report, if necessary.

- **Client five** – The client is an insurance company. Sakala & Chama Associates have identified instances of non-compliance by the client with industry-specific regulatory frameworks, standards, and has assessed that the risk management is ineffective. After reviewing the printed annual report, the audit team discovered that the printers had omitted the last two (2) notes to the financial statements on compliance and risk management. The Accountant-in-Charge (AIC) immediately rang the Finance Director and asked her to instruct the printers to include the omitted notes to the financial statements. The Finance Director responded that the board of directors had refused to approve the extra printing cost and recommended that these be included in the management report.
  The Audit Senior has suggested an adverse audit opinion.

SECTION A

Required:

(1) Prepare briefing notes to be submitted to the Managing Partner of Sakala & Chama Associates, in which you clearly explain the nature of the strategic alliance, the actions to be taken to legalize this in Zambia and any professional ethics implications. (18 marks)

(2) Using the information given in respect of the lease for Banana Plc:

(a) Explain four (4) key financial statement assertions for the lease. (4 marks)

(b) Discuss four (4) risks of material misstatement in respect of the lease. (4 marks)

(c) Describe six (6) audit procedures you will carry out to determine whether Banana Plc has correctly accounted for the lease in the financial statements. (12 marks)

(3) Using the information given in respect of Chiwempala University, recommend, with justification, a control for each of the six (6) frauds. (12 marks)

[Total: 50 marks]

SECTION B

(4) State the matters which should be considered before your firm accepts the invitation to perform an agreed upon procedures for River Motels and the action to take in view of the Managing Partner's revelation. (10 marks)

(5) In undertaking your review of the audit working papers for the financial statement audit of Lake Plc for the year ended 31 August 2025, for each of the issues:

(a) Comment on the materiality, impact on the financial statements and audit opinion; and (12 marks)

(b) State any two (2) audit evidence you should expect to find during your review. (6 marks)

(6) With reference to the details given regarding the suggested audit opinions for the five (5) clients, for each client, evaluate the suitability or otherwise of the suggested audit opinions, and make appropriate recommendations where necessary. (22 marks)

[Total: 50 marks]

END OF PAPER