



# **COMPETENCE PRACTICE EXAMINATION**

## **FULL AUDIT**

**JUNE 2010**

**TIME ALLOWED: 5 HOURS**

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### **INSTRUCTIONS TO CANDIDATES**

1. This paper has Two Questions.
2. You are required to attempt ALL the two questions
3. Each question has Sections:  
  
Question one has two sections: A and B  
Question two has two sections: A and B
4. All the two questions carry equal marks.
5. The Examination is divided into sessions of 2½ hours each. There will be a 30 Minutes break in between the sessions.
6. Please use your Membership number and your National Registration Card number on the front of the answer booklet. You name must NOT appear anywhere on your answer booklet.
7. This is an open book examination.

## **QUESTION ONE**

### **1) BACK GROUND**

Kachou Electronic & Glass (KEG) is a limited liability company controlled by Chinese nationals and employing approximately 100 employees. It operates two divisions: The glass division and the Electrical and Telecommunications division. The two divisions operate semi autonomously with their own accounting and management staff, with Mr Lou presiding as the chairman. However, the two divisions are controlled by a composite board of directors. Whereas the Glass division has performed reasonably well, the board has recently expressed concern on the performance of the Electronics division.

### **2) THE GLASS DIVISION**

The Glass division is involved in the manufacturing of glasses, jugs and vases. The glassware is sold predominantly to a large high Chinese street retailer, but KEG also sells direct to a number of local, cheaper retailers. The glassware sold to the high street store must be designed to their specification, and cannot be sold to anyone else. The Division has distribution depots around the country.

The division has a small accounting function which consists of the chief accountant Mr Chew, who reports directly to the managing director and major shareholder, Mr Lou and accounts clerk, Chanda. There is a small, PC based accounting system. Chanda enters invoices into the computer and maintains the manual cash book. Mr Chew is in charge of preparing management accounts on a monthly basis, the payroll, which is approved monthly by Mr Lou, the tax affairs of the company and of Mr Lou. Mr Lou controls purchasing and sales, although he has an assistant who produces the paperwork and liaises with Chanda in accounts.

### **3) THE ELECTRONICS AND TELECOMMUNICATIONS DIVISION**

The Electronics division is involved in the manufacture and distribution of electrical and telecommunication accessories, household durables (e.g. sink shower units) and building systems (e.g. air –conditioning, solar heating, security systems). The division has undergone several business restructurings in recent years. Finance is to be sought from both a bank and a venture capitalist in order to implement the board's latest restructuring proposals. For this purpose a business plan and profit forecast has been prepared to cover period up to 31 December 2012. The interim report prepared and reviewed by the outgoing auditors was used a basis for preparing the business plan and profit forecast.

### **4) APPOINTMENT OF AUDITORS**

You are a manager in Tayonse & Co, a firm of chartered accountants registered with the Zambia Institute of Chartered Accountants (ZICA). The date is April 2010 and you have been approached to accept appointment as auditors of KEG for the year ended 31 December 2009. The audit will be restricted to the Glass division initially, until the restructuring activities are finished at the Electronics division. Bushe Associates, the previous auditors, did not offer themselves for re-election due to disputes with Mr Lou.

This caused the delay in approaching you as it was assumed that Bushe Associates would automatically continue as auditors.

As part of your professional procedures, you proceeded to contact Bushe Associates to determine whether there should be any reasons why you should not take up the appointment.

## **5) APPOINTMENT AS PROFESSIONAL ADVISORS – ELECTRONICS DIVISION**

At the same time, you have been approached by Mr. Chang, the chief finance officer of the Electronics division to provide a report on the division's profit forecast for the period up to 31 December 2012.

From a brief telephone with Mr. Chang you have ascertained that the proposed restructuring will involve discontinuing all operations except for building systems, where the greatest opportunity for increasing product innovation is believed to lie. The Division's strategy is to become the market leader in providing 'total building system solutions' using new fibre-optic technology to link building systems. A major benefit of the restructuring is expected to be a lower on-going cost base. As part of the restructuring it is likely that certain of the accounting functions, including internal audit, will be outsourced.

You have obtained a copy of the division's Interim Report for three months to 31 March 2010 on which the previous company's auditors, Bushe Associates, provided a conclusion giving negative assurance.

## **6) PLANNING AND AUDIT STRATEGY**

Your firm has accepted both appointments and you have been appointed to be the manager of both assignments. You have proceeded to plan and develop appropriate strategies for both assignments

For the audit, you have:

- (i) You have obtained understanding of the Glass division and the environment in which it operates
- (ii) You have ascertained the various accounting and control systems in place
- (iii) You have identified and assessed related risks
- (iv) You have ascertained that the inventory counted was conducted during the first week of January 2010. Accordingly you have decided that alternative procedures would be undertaken
- (v) You have also allocated the required resources on the audit

Your partner has proposed that increased professional scepticism should be exercised in order to detect any material misstatement arising from fraud or error. This is because of the perceived dominant position occupied by Mr. Lou and poor controls.

## 7) AUDIT WORKING PAPERS

The following working papers have been prepared by your staff:

- a) Contact with Bushe Associates (**KEG/2009/bb/1**)
- b) Inventory procedures (**KEG/GD/2009/bn/1, including extracts of proposed opinion**)
- c) Extracts from the interim report of the Electronics division (**KEG/ED/2009//kp/1**)

<b>Client: KEG Ltd</b>	<b>Year-end: 31/12/2009</b>	<b>KEG/GD/2009/bb/1</b>
<b>Prepared by: Benny Bwalya</b>	<b>Date: 11/04/2010</b>	
<b>Subject: Contact with Bushe Associates</b>		

The following information has been extracted from telephone conversations and correspondence with Bushe Associates, as well as KEG in relation with the change in appointment:

- (i) Initially, Mr. Lou was reluctant to allow Bushe Associates to communicate with Tayonse & Co
- (ii) One of the things which Bushe Associates mentioned about their previous audits was that they always assessed internal controls as poor. For example there appeared to be significant transfers to a Chinese a company for which no clear documentation or justification was made available. Accordingly, the report for the financial statements ending 31 December 2008 was qualified. This sparked a bitter dispute with the board.
- (iii) Bushe Associates stated that apart from delays in settling audit fees and disputes over the qualified report, they stated that they are aware of no other ethical reason which bars the firm from acting. The fees for the audit of the financial statements for the year ended 31 December 2008 have not been paid
- (iv) They have passed over some relevant working papers to the firm, including some background information relevant to the audit. However, they have retained some other working papers as lien over unpaid fees
- (v) There is a general assumption by Mr Lou that any auditor they appoint should also provide any other service that KEG may require.

<b>Client: KEG Ltd</b>	<b>Year-end: 31/12/2009</b>	<b>KEG/GD/2009/bn/1</b>
<b>Prepared by: Bupe Nkhoma</b>	<b>Date: 22/04/2010</b>	
<b>Subject: Inventory procedures</b>		

As we were appointed after the year end, we were not able to attend the physical inventory count that was conducted during the first week of January 2010. Mr Lou has expressed concerns that the audit report for the year ended 31 December 2009 will be qualified because we were not able to attend the inventory count as required by auditing standards.

In order to perform alternative audit procedures the following information was extracted from the inventory records as at 30 April 2010:

- (i) The total inventory figure at 30 April 2004 stood at K23 billion and comprised manufactured glasses, jugs and vases, as well as uncut glass and work in progress at various stages of completion.
- (ii) There were several purchases that had taken place between January and April.
- (iii) The sales between January and April seemed much lower compared to the closing inventory at 30 April and the purchases during this period.
- (iv) There were some items written off as either broken or poor manufacturing quality.
- (v) There were some inventories held at other locations and with some retailers on sale and return arrangements.

**Comments:**

After carrying out alternative procedures:

- I was not able to obtain sufficient and appropriate evidence to support the inventory figure in the financial statements.
- For a number of glasses and jugs, the net realizable value was considered to be lower than cost. However Mr. Chew refused to make any adjustments. Cost is allocated on the basis of average cost.
- Although the total figure of inventories is material in reference to materiality parameters set, I was not able to assess the extent to which this affected the financial statements as a whole.

**Extract of the proposed opinion on inventories**

*“We did not observe the counting of physical inventory as at 31 December 2009, since that date was prior to the time we were initially engaged as auditors of KEG, Glass Division. The amount attributed to inventories is K23 billion.*

*Because of the significance of the matter referred to in the preceding paragraph, in our opinion the financial statements do not give a true and fair view of the profit for the year ended 31 December 2009, and the financial position as at that date.”*

<b>Client: KEG Ltd</b>	<b>Year-end: 31/12/2009</b>	<b>KEG/ED/2009/kp/1</b>
<b>Prepared by: Kathy Puuta</b>	<b>Date: 15/04/2010</b>	
<b>Subject: Extracts from interim report</b>		

(1) **Chairman's statement**

The economic climate is less certain than it was a few months ago. The performance of the Electronics division has been affected by a severe decline in the electrical accessories market. Management's response will be to gain market share and reduce the cost base.

(2) **Statement of financial position**

	<b>31 March 2010 (unaudited ) K billion</b>	<b>31 December 2009 K billion</b>
Intangible assets	83.5	72.6
Tangible non-current assets	69.6	63.8
Inventory	25.2	20.8
Receivables	59.9	50.2
Cash	8.3	23.8
<b>Total Assets</b>	<b>246.5</b>	<b>231.2</b>
Issued capital	30.4	30.4
Reserves	6.0	9.1
Retained earnings	89.1	89.0
Interest bearing borrowings	65.4	45.7
Current liabilities	55.6	57.0
<b>Total equity and borrowings</b>	<b>246.5</b>	<b>231.2</b>

(3) **Continued and discontinued operations**

	<b>Three months to 31 March 2010 (unaudited ) K billion</b>	<b>Year to 31 December 2009 K billion</b>
<b>Revenue</b>		
<b>Continuing operations</b>		
- Electrical & Tele. accessories	55.3	118.9
- Household durables	37.9	77.0
- Building systems	53.7	94.9
Total continuing	146.9	290.8
Discontinued	-	65.3
<b>Total turnover</b>	<b>146.9</b>	<b>356.1</b>
Operating profit before interest and taxation – Continuing operations	13.4	32.2

## QUESTION 1

SECTION A
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- 1) With reference to working paper **(KEG/GD/2009/bb/1)** dealing with professional etiquette,
  - a) Identify and discuss **FIVE** ethical and professional matters that are raised  
(10 marks)
  - b) For each matter, advise how your firm should act and come to conclusion as to whether your firm should continue to act as auditors for KEG  
(10 marks)
- 2) With reference to the assignment to audit the KEG Glass division,
  - a) Comment on the meaning and implication of the partner's recommendation that increased "professional skepticism" should be exercised in order to detect any material misstatement arising from fraud or error.  
(5 marks)
  - b) Identify and explain key business and audit risks arising from the description of the KEG Glass division.  
(10 marks)
  - c) Discuss the audit strategy which you feel should be adopted in the audit of the Glass Division, stating the reasons why you have chosen that strategy  
(10 marks)
- 3) In relation to the request for you to accept the engagement to report on the profit forecast for the Electronics division, and taking into account the extracts from working paper **(KEG/ED/2009/kp1)**, describe:
  - a) General procedures that should be undertaken on such prospective financial information.  
(5 marks)
  - b) Specific procedures to be carried out on the profit forecast.  
(10 marks)

**(Sub-total: 60 marks)**

<b>SECTION B</b>
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- 4) In relation to working paper (**KG/GD/2009/bn/1**) dealing with the inventory procedures
- a) Explain **FOUR** reasons why auditors are required to attend inventory count and discuss the statement from Mr Lou that suggests that your audit report will be automatically qualified because your firm was not able to attend the inventory count.  
**(10 marks)**
  - b) List and briefly describe the alternative procedures that were carried out by your auditor on the inventory amount to appear in the financial statements of the Glass division for the year ended 31 December 2009.  
**(20 marks)**
- 5) With reference to comments by your auditor in working paper (**KEG/GD/2009/bn/1**), and the proposed opinion on inventories
- a) Comment on the matters that should be considered before expressing such an opinion.  
**(5 marks)**
  - b) Prepare an extract of the opinion paragraph that should be issued in relation to inventories assuming:
    - i) The matter is considered material but **NOT** pervasive or fundamental
    - ii) The matter is considered material **AND** fundamental

**(5 marks)**

**(Sub-total: 40 marks)**

**(Total: 100 marks)**



## **QUESTION TWO**

### **1. BACKGROUND**

Choprite Ltd is a private company, owned by its directors, which manufactures wooden window frames, doors and staircases for domestic houses. The company was founded almost fourteen years ago and came into existence with the privatisation of the Zambian agricultural sector.

The company grew at a rapid rate in the early part of 2000. The successful demand within the domestic market led the company into a false sense of security. It neglected both product and market development, despite its ambitions to dominate the market. It was unaware of the growth of competitors, mainly from South Africa and Zimbabwe. In recent years the company has attempted to improve its situation by exporting to the countries within the SADC region but again its marketing knowledge is poor. The lack of innovation within the company means that the products are old-fashioned, often costly to maintain. They also lack flexibility and adaptability for the modern housing market.

### **2. CURRENT POSITION**

Choprite has a reasonable range of products but specifically lacks the technological design which is critical. Evidence suggests that in its current form, Choprite may be ill-equipped to satisfy market needs, while maintaining its position as a major supplier within the Zambian market. It has attempted to improve its productivity but this has proved unsustainable. It is generally considered that Choprite needs to focus more precisely on market needs, and match these to its capabilities.

### **3. PROVISION OF OTHER SERVICES**

During the year the management accountant Choprite resigned to take up an overseas more lucrative job. The Board felt the need to outsource the provision of the following services until such a time that another management accountant was recruited:

- a) Taxation, preparing the company's income tax computation and negotiating with the Zambia Revenue Authority, dealing with the tax affairs of the company's directors.
- b) Preparing periodic management accounts of the company, quarterly and annual accounts.
- c) Advising the directors on legal and accounting matters in relation to Choprite, for example preparation of submissions to the bank to obtain additional finance, advising on changes in share ownership and capital structure of the company and valuation of the company's shares.
- d) Attending meetings of the board of directors to provide financial advice and input.

#### 4. APPOINTMENT OF AUDITORS

You are the managing partner of Danzi & Partners. Danzi & Partners is a two partner firm of Chartered Accountants, registered with the Zambia Institute of Chartered Accountants (ZICA). Your firm has recently been re-appointed as auditors of Choprite Ltd for the second year running, to audit financial statements for the year ended 31 December 2009. The clients of Danzi & Partners are mainly sole traders, partnerships and small limited companies.

The Board of Directors have requested your firm to consider providing the other services planned to be outsourced, before another management accountant is recruited.

##### 4.1. The Audit Team

As partner in charge you have assembled an audit team comprising:

Name	Designation	Qualifications
1. Chomba Mutale Mr.	Partner (cm)	FZICA, FCCA
2. Christine Zulu Miss.	Manager (cz)	FZICA, FCCA
3. Joseph Boma Mr.	Senior Auditor (jb)	AZICA, ACCA
4. Beston Nkosa Mr.	Auditor (bn)	AZICA
5. Carlos Chileshe Mr.	Assistant Auditor (cc)	Student

#### 5. MATERIALITY

Danzi & Partners regards the setting of materiality as very important as it helps them to determine an effective and efficient audit approach. Materiality also helps the firm to determine:

- How many and what items to examine
- Whether to use sampling techniques
- What level of error is likely to lead to a modified opinion

For the audit of Choprite a materiality level was set at K18 billion. (See C-2009jb/1) This was initially proposed by the senior auditor and approved and endorsed by both the manager and the partner after further evaluation. Danzi & Partners reviews its materiality constantly as the audit progresses.

Danzi & Partners uses the following guidelines to determine an appropriate level of materiality:

<b>CRITERIA</b>	<b>MATERIALITY INDICATOR</b>
Turnover	½% - 1%
Profit before tax	5% - 10%
Total assets	1% - 2%

## **6. AUDIT STRATEGY**

The planning determined that a risk based approach would be used. With this, Danzi & Partners had carefully analysed the risks associated with Choprite's business, transactions and systems and directed their testing to risky areas. Particular emphasis was placed on the use of substantive analytical procedures wherever practicable. It was determined that analytical procedures should be used at the reporting stage and should cover:

- Important accounting ratios
- Possible changes in products and customers
- Variances
- Trends in revenue and costs
- Any variations caused by industry or economy factors

In addition, preliminary planning procedures identified possible going concern challenges. Accordingly, analytical procedures were to be used to assess the going concern of Choprite Ltd.

## **7. MATTERS FOR PARTNER'S ATTENTION**

After the field work was completed, the audit manager presented matters arising from the audit that required the partner's attention. These matters included going concern issues and other matters requiring adjustment of the financial statements. The going concern matter was regarded as highly sensitive and required careful input from the partner as it could result in the financial statements being qualified.

### **7.1. Going Concern Doubts**

After going through the draft accounts for 2009 and final accounts for 2008, Joseph Boma the senior auditor, noticed a downward trend in performance. Further investigations revealed some concerns over Choprite's ability to continue in operational existence in the foreseeable future. The Directors of Choprite provided that if there was any downward performance, it should only be between 2008 and 2009 and this should be explained by the recent economic crunch.

When Christine reviewed this work, she requested Joseph to extract other comparative historical financial information for further review. This is tabulated in working paper (C-2009/jb/2)

## 7.2. Other matters

You have been advised that the board of directors has approved the financial statements for the year ended 31 December 2009 and have decided that no amendments should be made thereto.

However, your manager Christine Zulu has highlighted the matters stated at (C-2009/cz/1), for your attention. She has indicated that the directors are adamant that it is not necessary to adjust for these items as doing so would only delay the presentation of the financial statements to the annual general meeting scheduled for the last week of March 2010.

## 8. WORKING PAPERS

It is now end of February and as partner in charge of the audit, you have been presented with the following information

WORKING PAPER SUBJECT	REFERENCE
Materiality	C – 2009/jb/1
Historical Financial Statements	C – 2009/jb/2
Other matters arising from the audit	C – 2009/cz/1
Going concern matters	C – 2009/cz/2

### 8.1. Materiality

<b>Client:</b> Choprite Ltd	<b>Year-end:</b> 31/12/2009	<b>C-2009/jb/1</b>
<b>Prepared by:</b> Joseph Boma	<b>Date:</b> 05/02/2010	
<b>Subject:</b> Materiality		

Turnover= 1,881 billion		Total Assets K1,400 billion	
½%	1%	1%	2%
K9.4 bn	K18.81bn	K14.0bn	K28.00 bn
Average = K14.105 bn		Average = K21 bn	

In order to form an opinion on the truth and fairness of the financial statements of Choprite Ltd, materiality is set at K18 billion. This has taken into account:

- Our understanding of the business
- Our understanding of the accounting and control systems
- Our inherent and control risk assessment, which has been assessed as medium to high.

For this purpose the loss before tax has been ignored

## 8.2. Historical financial statements

<b>Client: Choprite Ltd</b>	<b>Year-end: 31/12/2009</b>	<b>C-2009/jb/2</b>
<b>Prepared by: Joseph Boma</b>	<b>Date: 15/02/2010</b>	
<b>Subject:</b> Historical Financial Statements		

## STATEMENTS OF COMPREHENSIVE INCOME

	<b>2006</b> <b>K'billion</b>	<b>2007</b> <b>K'billion</b>	<b>2008</b> <b>K'billion</b>	<b>2009</b> <b>K'billion</b>
Sales	787	1,121	1,661	1,881
Cost of sales	<u>(701)</u>	<u>(962)</u>	<u>(1,326)</u>	<u>(1,510)</u>
Gross profit	86	159	335	371
Other expenses	(86)	(161)	(240)	(288)
Interest	<u>(9)</u>	<u>(58)</u>	<u>(90)</u>	<u>(117)</u>
Profit/(Loss) before tax	<u>(9)</u>	<u>(60)</u>	<u>5</u>	<u>(34)</u>

## STATEMENTS OF FINANCIAL POSITION

	<b>2006</b> <b>K'billion</b>	<b>2007</b> <b>K'billion</b>	<b>2008</b> <b>K'billion</b>	<b>2009</b> <b>K'billion</b>
<b>Non-Current Assets</b>	<u>161</u>	<u>544</u>	<u>600</u>	<u>587</u>
<b>Current assets</b>				
Inventories	133	181	307	449
Receivables	<u>240</u>	<u>303</u>	<u>313</u>	<u>364</u>
	<u>373</u>	<u>484</u>	<u>620</u>	<u>813</u>
<b>Total assets</b>	<b>534</b> ===	<b>1,028</b> =====	<b>1,220</b> =====	<b>1,400</b> =====
<b>Equity and Liabilities</b>				
Share capital	17	17	17	17
Reserves	<u>107</u>	<u>47</u>	<u>52</u>	<u>18</u>
	124	64	69	35

**Non-current liabilities**

Long term loan	-	300	300	300
	124	364	369	335

**Current liabilities**

Payables	317	355	490	641
Bank overdraft	65	211	269	365
Lease obligations	28	98	92	59

**Total equity and****Liabilities**

<b>534</b>	<b>1,028</b>	<b>1,220</b>	<b>1,400</b>
===	=====	=====	=====

The company has been in business for about fifteen years. In January 20X6 it decided to build a new factory on a site leased from the Solwezi Council which would allow a major increase in sales. The new factory with new machinery was completed a year later. The factory was financed by a long-term loan of K300 billion from Investrust Bank and an increase in the bank overdraft.

The loan from the bank is secured by a fixed charge on the leasehold factory and the bank overdraft is secured by a second charge on the leasehold factory, a fixed charge on the other non-current assets and a floating charge on the current assets.

The company purchases its main raw material, wood, from timber wholesalers. It sells about 75% of its production to about twelve local and national builders of new domestic houses. The remaining sales are mainly to smaller builders with a very few sales to local builders merchants.

**8.3. Other matters arising from the Audit.**

<b>Client: Choprite Ltd</b>	<b>Year-end: 31/12/2009</b>	<b>C-2009/cz/1</b>
<b>Prepared by: Christine Zulu</b>	<b>Date: 21/02/2010</b>	
<b>Subject: Other matters arising from the Audit</b>		

- The freehold property which was included in cost in previous years' statement of financial position now been restated at a professional valuation of K25 billion carried out during the year. As audit manager, I am satisfied with the valuation, the relevant figures have been adjusted and the necessary information disclosed in the notes to the accounts.
- An amount of K23.7 billion due from certain customers in respect of sales during the year is included in receivables but, from information made available to us, these customers have since been put under administration and may be liquidated in due course. I conclude that no part of this debt will be recovered. No provision has been made against this amount.

- c) The financial statements do not disclose the fact that a director was indebted to the company for an amount of K220 million during the period of six weeks commencing 1 April 2009.
- d) A substantial claim was lodged against the company arising from a major breach of contract and alleged damage to a customer's business, Landa Construction. No provision has been made for legal costs or compensation payable as it not possible to determine with reasonable accuracy the amounts, if any, which may become payable. A satisfactory explanation of the circumstances is given in the notes to the accounts.
- e) Choprite was fined K2.5 billion for environmental pollution of the area in which it operates. The fine has been treated as an intangible asset and is being amortised over 15 years, the estimated remaining useful life of the manufacturing facility in which the pollution incident took place. The directors argue that this treatment is logical because operating the manufacturing facility brings them economic benefits in the form of revenues.

#### 8.4. Going Concern Matters

<b>Client: Choprite Ltd</b>	<b>Year-end: 31/12/2009</b>	<b>C-2009/cz/1</b>
<b>Prepared by: Christine Zulu</b>	<b>Date: 28/02/2010</b>	
<b>Subject: Going concern Matters</b>		

I have reviewed the going concern position of Choprite and conclude that:

- a) Choprite is going through operational and financial challenges
- b) Choprite is trying to raise funds. If these funds are not secured, there is significant doubt over the going concern status of the company.
- c) The going concern assumption is appropriate provided there is assurance that such funds would be secured. However I recommend that the financial statements should contain a note explaining the operational and financial problems faced by the company, along with the description of the finance being sought, and an evaluation of the going concern of the company

Further discussions indicate that the directors do not wish to include the note in the financial statements

## QUESTION 2

<b>SECTION A</b>
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- 1) In relation to the request for you to provide other services by Choprite Ltd:
- a) Discuss potential benefits that may arise to you and Choprite Ltd in providing each of the above services.  
(5 marks)
- b) Examine the extent to which providing each of these services may compromise your independence, and the action you would take to minimise the risk to your independence of providing these services.  
(15 marks)
- 2) In relation to the historical financial statements provided in working paper (C-2009/jb/2)
- a) List and briefly describe the factors which indicate that Choprite may not be a going concern. You should also highlight certain figures and calculate relevant ratios in the accounts.  
(20 marks)
- b) Describe the investigations and checks that your manager should have carried out, in addition, to those described in (a) above, to determine whether Choprite is a going concern.  
(10 marks)
- (Sub-total: 50 marks)

<b>SECTION B</b>
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- 3) In relation to other matters arising from the audit manager stated at working paper (C-2009/cz/1), as partner responsible for the audit of Choprite, write a letter to the directors explaining how you propose to deal with each of the matters stated in the working paper, as part of the process of finalising your audit report  
(20 marks)
- 4) Working paper (C-2009/cz/2) suggests doubts over the going concern of Choprite.
- a) Consider and comment on the possible reasons why the directors of Choprite are reluctant to provide the note to the financial statements  
(16 marks)



b) Identify and discuss the implications for your audit report if:

i) The directors refuse to disclose the note (7 marks)

ii) The directors agree to disclose the note (7 marks)

**(Sub-total: 50 marks)**

**(Total 100 marks)**

**END OF EXAMINATION**