



COMPETENCE PRACTICE EXAMINATION

FULL AUDIT

DECEMBER 2011

TIME ALLOWED: 5 HOURS

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. Your name must NOT appear anywhere on your answer booklet.
7. This is an open book examination.

QUESTION ONE

Zodacom Mobile Ltd (ZML)

A. Background

Your name is Redson Kashika. You are a senior manager with Chanza Associates, an audit firm registered with the Zambia Institute of Chartered Accountants (ZICA). You are a member of the team conducting cold reviews for this year. You have selected a number of clients including Zodacom Mobile Ltd (ZML). You have obtained a brief review of ZML and you have planned to review:

- Acceptance procedures
- Planning procedures
- Report to society
- The use of experts
- A sample of reports

Since the last audit, new legislation relating to the mobile industry has been passed and ZML expects Chanza and Associates to provide other related and assurance services.

B. Brief review of ZML: Message from the Chairman of the Board

Zodacom Mobile Ltd (ZML) is a subsidiary of Zodacom Holdings, listed on the London Stock Exchange. ZML's vision is to be a leader in "telecommunications in developing markets". The leadership is derived from our foresight, commitment and guidance to extract value in markets where we see growth opportunities and critical mass.

In 21 markets where we operate, we lead, resulting to 129 million subscribers as at June 2010 in the 16-year period since we have been in existence. So, who are we? We are leaders in connectivity. Why are we better? We enhance the consumer's life. We do things differently. We make the impossible possible.

Mobile phones play a very important and different role to networks in consumers' minds, requiring a distinctively different marketing and communication strategy. Mobile phones express individuality while networks express connectivity. With this in mind, ZML Zambia's strategy will focus on consumer benefits and technology. We will communicate relevant and appealing ways in order to make it easy for consumers to choose the most appropriate and relevant products and services.

In a market where we believe the addressable market is more than 2 million, there is a dire need to position the brand appropriately in order to make it easier for the discerning consumer to choose. The tools we use to position our brands are brand values, brand personality as well as brand essence.

Our brand values are the reason why our 129 million customers as at June 2010 and our employees build a relationship with our brand. We build the future for our people and the customers we serve, leading the way in connectivity enhancement. We are founded and guided by integrity, a solid principle of trust and togetherness. We are because of our customers; we are because of our employees, and in their trust and belief, we will always succeed.

We are optimistic about the future and very passionate about our beliefs and what we do. We believe that life is beautiful and everyone should enjoy it. Our role is to create brighter futures for everyone whose life we touch, empowering people, communities and countries where we have presence. Obviously we cannot succeed if we do not connect with people at a personal level; having empathy for their unique situations through establishing relationships, we do things differently, making unlikely connections. With ZML, the unexpected exceeds expectations.

The challenge is ours: everything that ZML does, everyday of our lives, whether creating brand strategies, making strategic business decisions, interacting with our customers, employing new people or brainstorming new ideas, we ask ourselves these questions: Is it new? Is it unique? Is it original? To build a strong brand and to avoid any confusion in our customers' minds, we employ a strict monolithic brand architecture strategy. This system ensures that every contact a customer has with ZML across geographies is consistent and builds the equity of the ZML brand. ZML is a hero in everything we do.

Understanding the consumer purchase decision process is the first key step for product segmentation. We focus on the key benefits aligned to consumers' needs. We bring the ZML total experience. Innovation is launched under the ZML mega brand and not a tariff plan. For a brand to deliver on its promise, our staff must actively embody it. To do this, our staff must have:

- An understanding of the brand, Their role in delivering it and The necessary behaviours and tools to do this.
- A vision and values programme has been instituted. Our staff are brand champions; that is, they understand
- The brand vision and deliver it with passion, commitment and loyalty across all ZML points of presence.

C. Acceptance procedures

- i) The engagement letter specifies the nature of the contract between your firm and ZML and includes objective and scope of the audit, including responsibilities of the auditor and responsibilities of the management. However, the letter is exactly the same as the letter issued in the previous year. No reason has been given for not changing the contents of the letter.
- ii) The audit of ZML was delayed and the reporting deadline missed.
- iii) ZML is concerned about the size of the audit fee and has imposed a maximum of 20% increase in audit fees each year.
- iv) ZML maintained that the internal controls in purchasing system are satisfactory and the auditor should not "waste" their time reviewing them.
- v) ZML expects Chanza & Associates to provide other due diligence reviews and tax consultancy as continues to expand in future. For the year under review, Chanza & Associates assisted ZML with the recruitment of the Finance Director, following the sudden resignation of the previous director.

D. Planning procedures

In the course of your review you notice the following:

- i) Minutes of the planning meeting are on file but were not signed by the partner
- ii) For the audit of the financial statements for the year ended 31 December 2010, field work was completed by February 16, 2011 and the financial statements together with the audit report were signed on April 15, 2011.
- iii) The subsequent events checklist was completed on February 15th 2011.
- iv) ZML has very little headroom in its overdraft and apparently no other borrowing facilities
- v) There is a letter of support on file from the holding company dated April 15, 2011

- vi) Materiality is calculated at K600 million which is in line with the firm's recommended procedures
- vii) The confirmation for receivables was successful except for one non-reply for K400 million
- viii) Non-current assets consist of office furniture, office equipment and racking and forklifts for the rented warehouse. Net book value is K2.5 billion and additions in the year were K400 million. Copy invoices for all the additions are on file but you find it difficult to see precisely what work was done and ,the working papers, other than the pre-printed audit programme and lead schedule, were neither initiated nor dated.

E. Report to society

ZML has drafted its first 'Report to Society' which contains health and safety and environmental performance data for the year to 31 December 2010. A comment on file indicates that the matter is to be dealt with when all other information for inclusion in the company's annual report is available'.

F. The use of experts

- i) Chanza and Associates still have limited experience in the mobile phone industry. For the audit of the financial statements for the current year a consulting firm Future Technologies was engaged to provide expertise on the audit. It is not clear from the audit files whether the firm has put in place adequate safeguards with regard to the use of experts and audit of engagements where the firm has limited experience.
- ii) You have determined that several investment properties have been purchased to utilise surplus funds and provide rental income. The properties have been revalued at the year end in accordance with IAS 40 *Investment Property*. These are recognised in the statement of financial position at a value of K8 billion, and the total assets of ZML are K160 billion. An external valuer was used to provide the fair values for the property, plant and equipment. You are not satisfied with the assessment made of the external valuer. In addition, the audit procedures appear incomplete and inconclusive.

G. Review of sample report extracts

i) Audit opinion on ZML

As more fully explained in notes 11 and 15 impairment losses on non-current assets have not been recognised in the statement of income as the directors are unable to quantify the amounts.

In our opinion, provision should be made for these as required by International Standard 36 (Impairment). If the provision had been so recognised, the effect would have been to increase the loss before and after tax

for the year and to reduce the value of tangible and intangible current assets. However, as the directors are unable to quantify the amounts, we are unable to indicate the financial effect of such omissions.

In view of the failure to provide for the impairments referred to above, in our opinion the financial statements do not present fairly in all material respects the financial position of ZML as at 31 December 2010 and its loss and its cash flows for the year then ended in accordance with Financial Reporting Standards.”

Your review of the prior year auditor’s report shows that the 2009 audit opinion was worded identically.

ii) Audit opinion on Chawama Holdings.

Adverse opinion arising from disagreement about the application of IAS 37

The directors have not recognised a provision in relation to redundancy costs associated with the re-organisation during the year. The reason is that they do not feel that a reliable estimate of the amount can be made, and so recognition criteria under IAS 37 have not been met. We disagree with the directors as we feel that an estimate can be made. This matter is more fully explained in a note to the financial statements. We feel that this is a material misstatement as the profit for the year is overstated.

In our opinion, the financial statements do not show a true and fair view of the financial position of the company as of 31 March 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting standards.

Emphasis of matter paragraph

The directors have decided not to disclose the Earnings per Share for 2011, as they feel that the figure is materially distorted by significant discontinued operations in the year. Our opinion is not qualified in this respect.

iii) Audit opinion extract on Trade Pings

The scope of the audit for the year to 30 September 2010 has however been limited as the former chief executive fled the country in early February 2010 taking the accounting records with him. Accordingly the

evidence available to us was limited because the accounting records were missing at the beginning of the period and it was not possible to completely reconstruct them.

Opinion

Because of the possible effect of the limitation in evidence available to us, we do not express an opinion on the financial statements

You have determined that the audit report for the year ended 30 September 2009 was signed in January 2010 without modification.

SECTION A

- 1) Using the information provided under acceptance procedures, explain FIVE matters that should have been considered before accepting the engagement to audit ZML (10 marks)
- 2) In relation to the use of experts,
 - a) Explain the safeguards should be applied to ensure that the threat to professional competence and due care is reduced to an acceptable level. (10 marks)
 - b) Recommend the enquiries that should have been made in respect of the external valuer, before placing any reliance on their work, and explain the reason for the enquiries (10 marks)
 - c) Explain the principal audit procedures you would expect to be performed on the valuation of investment properties. (10marks)

SECTION B

3) With regard to your review of planning procedures

- a) Comment on the quality control procedures relating to the audit of ZML (10 marks)
- b) What recommendations would you make to the firm's audit quality committee?
(10 marks)

- 4) Identify and comment on the implications of the your findings on the report to society for ZML's quality control procedures (5 marks)
- 5) Critically appraise the appropriateness of the audit opinions given by your firm on
- a) ZML (15 marks)
 - b) Chawama Holdings (12 marks)
 - c) Trade Pings (8 marks)