

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL THREE

#### AUDITING & OTHER ASSURANCE SERVICES – PAPER 15

**TUESDAY, 9 DECEMBER 2008**

#### INSTRUCTIONS TO CANDIDATES:

1. Attempt question one in Section **A** and any **two** questions from Section **B**.
2. Section **A** has one compulsory case study question carrying 50 marks.
3. Section **B** has **four** questions and only **two** are to be attempted. Each question carries 25 marks.
4. Please, read further instructions on the answer

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## SECTION A

### Question 1

You are the Audit Manager in Gakyali Mabaga, a firm of Certified Public Accountants. The directors of Leo Ltd have recently requested your firm to submit a proposal as they intend to appoint your firm as their auditors. The partners requested you to review this request and you decided to pay the company a visit which would help you in your planning and review.

Leo Ltd mainly sells and distributes telephone sets and accessories imported from the Middle East especially to retail outlets. The company expanded rapidly in recent years and this trend can be traced back to the appointment of a new General Manager in May 2006. The company is selling a new model of mobile telephone with modern technologies for which it obtained exclusive national distribution rights for a period of eighteen months. Sales of this new telephone constitute the largest proportion of the turnover of the company.

Due to the rapid expansion, the company has had to recruit many new staff and the number of staff has almost tripled. Some of the critical departments such as distribution have had to be moved out of the head office to other premises off-site.

Sales of the new “wonder” telephone have, however, been declining over the last three months.

In a bid to expand the company, the General Manager also started a serious acquisition drive and has thus far acquired three subsidiaries which deal in various lines of business. The financial statements of the subsidiaries are to be consolidated with those of Leo Limited. The most recently acquired company has not appointed your firm to carry out their audit and you would need to rely on the work of their auditors.

Further investigations have revealed that the company has not yet communicated to the outgoing auditor to inform them of the intention to discontinue their services. Staff in the finance and accounting department have informed you that the auditor has always been heavily involved in the preparation of the financial statements and assisting in the preparation of the books of account.

Your firm prides itself in the use of the “top down approach” when carrying out audits, and you believe that you would be giving the client value for money if you were appointed auditors.

You have completed the assignment given to you and are preparing your report to the partners to enable them make a decision.

**Required:**

- (a) Explain the term “top down approach” as it relates to business risk in auditing.  
(5 marks)
  - (b) Describe the principal audit risks that would be included in your submissions arising from your review of the company.  
(15 marks)
  - (c) Describe the processes which would assist you to manage the risks identified to an acceptable level.  
(12 marks)
  - (d) Describe the audit procedures you would carry out in order to place reliance upon the work of the auditors of the subsidiary company.  
(8 marks)
  - (e) Which matters would you consider when computing materiality?  
(5 marks)
  - (f) Describe the matters that you would take into consideration when considering whether to take up an audit engagement.  
(5 marks)
- (Total 50 marks)**

**SECTION B**

**Question 2**

Mergers of audit firms are sometimes seen as a way of improving the efficiency and economy of many practices. Clients, on the other hand claim that this limits them to a few audit firms that they can choose from to get value for money services.

**Required:**

- (a) Describe the reasons that may lead audit firms into merging their practices.  
(14 marks)
  - (b) Discuss the problems that would arise from merging large firms of auditors.  
(11 marks)
- (Total 25 marks)**

### Question 3

An audit practitioner should comply with the International Standards on Assurance Engagements when performing an assurance engagement other than an audit or review of historical financial information covered by International Standards on Auditing (ISAs) or International Standard on Review Engagements (ISREs).

**Required:**

- (a) Describe the main matters that should be considered when planning for such assurance engagements.  
(6 marks)
- (b) Explain the matters that may need professional judgement to be exercised during the engagement.  
(7 marks)
- (c) Explain the basic elements that would be included in the assurance report.

(12 marks)  
(Total 25 marks)

### Question 4

**ISA 240:** The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements) (revised) requires that in planning and performing the audit to reduce the audit risk to an acceptably low level, the auditor should consider the risks of material misstatement in the financial statements due to risk.

You are the audit manager for a firm of certified public accountants. You are planning the audit of one of your clients who have multiple sales items and the directors have requested you to review the sales system particularly in regard to fraudulent activities.

**Required:**

- (a) Describe how an internal control system could help in the prevention of frauds and errors.  
(7 marks)
- (b) What are the potential errors or irregularities that could occur in the processing of sales transactions?  
(6 marks)
- (c) Explain the preventive measures that you would expect to be in place to avoid errors and frauds in the sales system.

(12 marks)  
(Total 25 marks)

**Question 5**

**ISA 300:** Planning an Audit of Financial Statements, guides an auditor to conduct efficient audits in an effective manner and to complete their work in good time.

You are the audit senior in charge of the audit of one of your new clients.

**Required:**

- (a) Which sources of information would you use in the preparation of your audit plan?  
(7 marks)
  - (b) Describe the items you would include in an audit plan.  
(14 marks)
  - (c) Explain the problems you may face when preparing an audit plan.  
(4 marks)
- (Total 25 marks)