

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL THREE

AUDITING & OTHER ASSURANCE SERVICES – PAPER 15

THURSDAY, 17 JUNE 2010

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
2. Attempt question **one** in Section **A** and any **two** questions from Section **B**.
3. Section **A** has one compulsory case study question carrying 50 marks.
4. Section **B** has **four** questions and only **two** are to be attempted. Each question carries 25 marks.
5. Please, read further instructions on the answer

SECTION A

Question 1

Groove Group Ltd (GGL) is a large and fast-growing group of companies dealing in a number of product lines and spread in 5 districts in Uganda. The company has two subsidiary companies in Rwanda. The company's reported profits have greatly increased in the previous three years and it is considering listing on the Uganda Securities Exchange in November 2010.

GGL has a number of assets spread in various districts where group subsidiaries are located. The directors are determined to expand to 5 more districts by December 2010. The company does not employ professional accountants to efficiently manage the accounts department of the group. The assets register has not been updated for the past two years as noted by the auditors in their report for financial year ended December 2008.

The directors of the company have failed to heed to the advice given and recommendations made by an outsourced internal auditor. The internal auditor has not renewed his contract with the group. Some disgruntled staff confided in the external auditors that there is conspiracy among the directors of the company to make it appear more profitable in order to attract funding during the anticipated initial public offering (IPO).

Staff are aware that the abnormal profitability has been achieved through fabricating documentation for transactions that never took place, understating expenses and overstating assets by Shs 5 billion. They also told auditors that GGL and its subsidiaries are secretive and do not allow staff to get involved in the processing of some transactions.

Upscale & Co., Certified Public Accountants have been the principal auditors for GGL for the last three years and have been issuing unqualified reports. The two subsidiary companies in Rwanda were allowed to appoint their own auditors. The engagement partner admits that during the past audits, they had not visited three subsidiaries which were located upcountry and had relied on information provided by head office. The general manager of GGL had only given verbal representations to the auditors and claimed he was too busy to have them written down. The partner also acknowledges that the manager in charge of the audit was not experienced enough to handle such a complicated audit.

Required:

- (a) With reference to the case study, illustrate the conditions that may indicate risks of material misstatement for Groove Group Ltd's financial statements.

(16 marks)

- (b) Describe the aspects of an asset that an auditor must verify when carrying out an audit.
(10 marks)
 - (c) Briefly explain the contents of the current audit file that the auditor of Upscale & Co. requires in considering consolidated accounts.
(10 marks)
 - (d) How would you advise the partner if the requested written representations are not provided?
(6 marks)
 - (e) Briefly explain the ethical issues Upscale & Co. should take into account when undertaking audit engagements.
(8 marks)
- (Total 50 marks)**

SECTION B

Question 2

Easy Deal Limited deals in the importation of used clothes and shoes. It has four branches located in Masaka, Arua, Kampala and Kabale. The directors of the company do not possess proper management skills.

Easy Deal Limited has been offered a sub-dealership business opportunity by a leading telecommunications company. One of the requirements of the new venture is that Easy Deal Limited presents audited financial statements for the past three years in order to assess their past business performance. The directors have approached your firm for this urgent assignment which they anticipate to be performed in only one month. Assume that you are the manager in charge of the engagement.

Required:

- (a) Giving an example, briefly define the term “professional skepticism” and the need to have it in mind during the course of an audit.
(5 marks)
 - (b) Discuss the matters you would consider when assessing the integrity of a client before accepting an engagement.
(10 marks)
 - (c) Draft an engagement letter for Easy Deal Limited, clearly spelling out the principal contents of a standard engagement letter.
(10 marks)
- Total 25 marks**

Question 3

Kintu is an ambitious young accountant. He has been working with a medium-sized local audit firm as audit manager for four years and has good experience in auditing and other assurance services. Kintu has decided to resign from his current employment and wishes to open up his own firm. He has teamed up with two old boys to kick-start their new venture.

However, Kintu and his colleagues have not been attending continuing professional development (CPD) seminars regularly and are not abreast with most current developments in the profession. They are particularly not familiar with the International Standard on Quality Control (ISQC) 1: Quality Controls for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements. Kintu and his colleagues have approached you to advise them on the setting up and management of their new firm. Their concern is about quality control of an audit firm, ethics, and performance of work to required standard and expectations.

Required:

- (a) Illustrate the elements of a system of quality control which the firm should include in its policies and procedures.
(10 marks)
- (b) Advise Kintu and his colleagues about the human resource issues they need to consider when setting up an audit firm.
(10 marks)
- (c) Outline and briefly explain the methods audit firms can use to develop the competences of their staff.
(5 marks)

(Total 25 marks)

Question 4

Under the current global economy, e-commerce has increasingly become a necessary component of business strategy and a strong catalyst for company growth and improved efficiency in service delivery. It is also common that e-commerce presents great risks to companies which engage in it, to the extent that some auditors avoid auditing them.

You are the manager of an upcoming audit firm and your partner has put you in charge of a client whose operations highly involve e-commerce. You are required to use automated audit procedures.

Required:

- (a) Illustrate the approach you would use to audit a client engaged in e-commerce.

(13 marks)

- (b) Describe the benefits of automating audit procedures.

(12 marks)

(Total 25 marks)

Question 5

Okello has just finalized his professional qualification course and has been offered employment in a large audit firm. He is looking forward to becoming an excellent auditor. During his professional training, Okello paid particular attention to audit risk and is aware that audit firms need to be organized so as to minimize the risks of paying damages to clients or others arising out of negligent work. As manager in the firm, you have been requested to mentor Okello and start him off with audit risk.

Required:

- (a) Discuss the risks faced by auditors in the course of carrying out audits.

(10 marks)

- (b) Advise Okello on how risks arising out of particular audits can be minimized.

(15 marks)

(Total 25 marks)