

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL THREE

AUDITING & OTHER ASSURANCE SERVICES - PAPER 15

THURSDAY, 09 DECEMBER 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, before attempting any question.

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SECTION A

Question 1

Ten Hills Uganda Limited - (THUL) is a subsidiary of Ten Hills International, a company incorporated in Asia. The company is engaged in the manufacture of plastic products. It employs many casual workers and has a number of commission sales executives.

The accounting system of the company is partly computerised and partly manual. There is a computerised database for regular customers, suppliers, creditors and debtors.

The company's products have high demand both locally and regionally. Exports have increased from 3% to 28% in the past one year but the profit margin reduced from 30% to 24%.

The turnover for the year ended December 2009 was Ushs 25 billion and one third of this was made through credit sales. The sales executives will do anything possible to ensure high sales in order to maximise their commissions. They are taking advantage of a relaxed credit policy of the company which gives a credit period of 60 days. The company has not been filing its tax and other returns regularly. THUL is battling a litigation case with a major supplier for non-payment of interest on an overdue debt.

The company has now ventured into the real estate business, as advised by a consultant who declared that such business is lucrative in Uganda. THUL has so far constructed and rented out 5 blocks of apartments in a prime residential area in Kampala. The information relating to rental income is recorded manually at a separate office near the apartments and is not regularly updated in the computer system.

The company employs professional accounting staff but they are reluctant to disclose information to auditors due to an oath of secrecy they swore on joining the company. In fact, for the year ended December 2009, your firm, ETC & Partners, had problems obtaining enough audit evidence to support the financial statements and even considered qualifying the audit report. The firm is determined to change the situation this year and the partner has asked the engagement team to perform all audit procedures to achieve this objective.

As the audit manager in charge of the audit, you want to ensure that your team carries out professional work. Given the complexity of the company, you are conscious that working papers are critical in supporting your report, yet some staff on the team have just joined the firm and need hands-on training. As a point of reference for future audits, you want to use this assignment to train staff in

carrying out analytical reviews, writing professional audit reports and compiling a proper current audit file.

It is the policy of ETC & Partners that any audit team should comprise; a partner, audit manager, a senior and two audit trainees as a way of ensuring adequate capacity building of staff in the firm. It is also policy that every audit should have a comprehensive audit programme.

Required:

- (a) Using the information provided, prepare a memorandum to be discussed with your team explaining the risks associated with Ten Hills Uganda Limited and the audit approach to be applied in high risk situations.

(17 marks)

- (b) Explain to your staff the meaning of a current audit file and the information they are required to include therein when undertaking the audit of THUL.

(6 marks)

- (c) Discuss the advantages and disadvantages of audit programmes when conducting audits.

(7 marks)

- (d) Giving examples from the case, explain the stages at which the auditor will carry out analytical reviews and illustrate the factors which might influence the extent of use of analytical reviews.

(12 marks)

- (e) (i) Briefly explain the contents of the introductory paragraph in the auditor's report.

- (ii) Giving examples, describe the circumstances in which an emphasis of matter paragraph might be necessary in the audit report.

(8 marks)

Total 50 marks

SECTION B

Question 2

Your firm has been selected by the Office of the Auditor General of Uganda to audit a public limited company which has been at the centre of controversy in the media. The engagement partner of your firm has asked you to ensure that this audit is handled professionally. As a newly qualified CPA, you are aware that direction, supervision and review are important elements for control during engagement performance.

Required:

- (a) Illustrate the matters you will inform the engagement team members to ensure proper direction during the audit.
(6 marks)
 - (b) As a manager, what issues must you consider when supervising the work of an engagement team?
(3 marks)
 - (c) What are the issues would you need to consider when reviewing the work of an engagement team?
(6 marks)
 - (d) Briefly explain the matters you will consider in establishing the overall audit strategy.
(10 marks)
- (Total 25 marks)**

Question 3

During the course of preparations for the audit of Drillcom Limited, a company dealing in oil and lubricants, your senior auditor has briefed you on situations in the company that require your immediate attention. The company has several related party transactions and many debtors. Some of the transactions are ambiguous and not easy to identify. As an auditor, you are aware that the nature of related party relationships and transactions may, in some circumstances give rise to high risks of misstatements of the financial statements than transactions with unrelated parties. You also know that it is not feasible to circularise all debtors.

Required:

- (a) Giving appropriate circumstances, define the term 'related party'.
(5 marks)
 - (b) Briefly explain the various types of transactions that may indicate existence of related parties.
(4 marks)
 - (c) Describe the procedures an auditor will take to ascertain existence of related parties.
(6 marks)
 - (d) Giving examples, illustrate the bases you would apply to identify debtors for circularisation.
(10 marks)
- Total 25 marks**

Question 4

The public is currently looking at auditors as persons responsible for enhancing accountability in both private and public sectors. The auditor must therefore approach his/her work with integrity and objectivity. It is also important that companies have audit committees in place as an aid to this independence. As a newly qualified CPA, you also know that the auditor should safeguard himself/herself from a number of matters that may threaten his/her independence.

Required:

- (a) Illustrate the factors that may threaten independence which an auditor should be aware of when conducting audits.
(10 marks)
 - (b) Describe the roles of the audit committee in enhancing corporate responsibility and audit effectiveness.
(10 marks)
 - (c) Briefly explain the problems that may cause an auditor to reflect on whether proper accounting records have been kept by an organisation.
(5 marks)
- (Total 25 marks)**

Question 5

Get it Ltd is a company recently incorporated in Uganda. It is located near the shores of one of the major lakes in the country. The company engages in open cast mining activities and also operates a waste treatment plant. The media, civil society organisations and the public have raised the health hazard problems associated with the company's activities and have asked the concerned regulators to investigate the matter. Your firm, Everlasting & Co. has been approached by Get it Ltd to carry out the audit of the company's financial statements for the year ended 31 October 2010.

Required:

- (a) Illustrate the environmental and other related matters that could affect the audit of the financial statements of Get it Ltd.
(13 marks)
 - (b) Explain the substantive procedures your firm would adopt in carrying out the audit of the company
(8 marks)
 - (c) Briefly outline the auditor's approach when dealing with laws and regulations affecting Get it Ltd.
(4 marks)
- (Total 25 marks)**