

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL FOUR

INTEGRATION OF KNOWLEDGE – PAPER 16

COMPREHENSIVE CASE STUDY QUESTIONS

AFTERNOON SESSION MATERIAL

TUESDAY, 15 JUNE 2010

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours 30 minutes**.
12.30 p.m. – 4.00 p.m. (3 hours 30 minutes).
2. The following pages contain a compulsory case study question carrying 100 marks.
3. The completed answers and any working papers, clearly labeled working papers must be handed in at the end of the afternoon session. Where working papers form part of your answer, ensure that they are appropriately cross referenced.
4. It is in your interest that you hand in all written materials prepared during the examination.
5. Please read further instructions on the answer book.

Appendix 4

Draft Minutes of the Board Audit Committee Meeting

Minute 1: Communication from the Chair

The board of directors (BOD) chairman had kicked-off the meeting with a notification to members that most time would be spent on scrutinising the draft annual financial statements for the year ended December 2009. He said he was personally not impressed with the bank's performance, the challenges faced by the banking world globally notwithstanding. "We recruited the CEO as a turnaround specialist, but things are moving for the worse....." he said. We need to put management to task to explain this huge loss. The BOD chairman was particularly incensed that the auditors had reservations about the financial statements.

Agreed:

that there was need for management to explain, in writing, why the bank had continued to make huge losses despite the fact that various promises for performance improvement had been made.

Minute 2: Pending Case by the Former Head of Finance

Discussed:

The auditors noted that the pending case against the bank by the former head of finance is a material contingency which ought to have been provided for in the financial statements. They were equally concerned by the huge unexplained reconciling items appearing in the bank reconciliation and loan reconciliation statements. No provision has been made on either item, and the auditors intend to issue an emphasis of matter. The bank does not agree with this and requested that the audit opinion be revised.

Minute 3: Independence of Internal Audit

Noted:

that external auditors had raised the need for an independent internal audit function.

Discussed:

PDB's former head of audit had earlier resigned, noting in his resignation that he lacked support from the CEO. They had often clashed over the audit reports, and some of these reports even never made it to the BOD audit committee. The

internal audit's work plan always had to be approved by the CEO before the head of audit and his team could embark on their tasks.

Agreed:

that there was need for setting up an independent internal audit department, headed by a grade 2 manager, just like the finance and credit departments. "If we had a good internal audit function, some of these things would probably have been seen long before! Look at these provisions" exclaimed the chairman.

Agreed:

that the committee speeds up the recruitment of the head of internal audit.

Minute 4: Additional Financing for the Bank.

Discussions then shifted to how the bank could raise additional finances. Management had proposed that the bank raises more equity from the owners (member countries) through a rights issue.

The matter was not concluded because management did not have the detailed information on the nature of the rights, and how many additional shares were to be issued.

Minute 5: AOB

Management was asked to prepare a summary report to the board highlighting the key actions to hasten the turnaround, the progress being made and the target sectors in light of the changes in the macroeconomic environment. The board also tasked management to consider engaging the services of a management consultant, if this was considered necessary.

You may assume that you work for XYZ, a leading local firm of Certified Public Accountants, which recently won the management consultancy job at Polimuria Development Bank. The senior partner feels that as a CPA(U) finalist, it is time for you to get your hands dirty. He has appointed you as the lead consultant on this assignment.

According to the terms of reference, the following are the matters on which your firm's input is required.

Section A: Strategic Planning at the Bank

- A1. Urgent strategic priorities at Polimuria Development Bank
- A2. Critical success factors for a Regional Development Bank like PDB.
- A3. Performance-based rewards at the bank vis-à-vis the quality of the bank's portfolio
- A4. Implementation of a cultural/attitude change at the bank

Section B: Audit and Governance at the Bank

- B1. The financial performance and financial position of PDB
- B2. Relevance of an independent internal audit department to an institution like PDB
- B3. The necessary provisions in relation to the pending legal dispute with the former head of finance
- B4. The application of IAS 39: (Financial Instruments: Recognition and Measurement) to the valuation of loans.
- B5. Mr. Mugenzi's residence status for tax purposes
- B6. Considerations prior to the decommissioning a system

Section C: General Macroeconomic Dynamics

- C1. The impact the global financial crisis might have had on the operations of PDB.
- C2. Sectors for potential intervention as the continent rebounds from the financial crisis
- C3. The key risks the bank faces, and how those risks could be managed
- C4. Relationship between rates on government securities and the cost of lending

Required:

Taking the role of the lead consultant, prepare a report to be signed by the senior partner of XYZ, Certified Public Accountants, advising management at PDB on the above issues. Include any other information or issues, which in your opinion, management must act on.