

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL THREE

AUDITING & OTHER ASSURANCE SERVICES – PAPER 15

THURSDAY, 16 JUNE 2011

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.

SECTION A

Question 1

You are the audit manager in Vaco Associates, a firm of Certified Public Accountants of Uganda. The firm has got a new client, MobOne Limited, a multinational telecommunications company providing mobile telephone and internet services in the Great Lakes region, which is considered to be a fast growing market. Vaco Associates have been engaged by the company for their financial audit for the year ended 31 March 2011.

MobOne Limited acquired Terucom Limited towards the end of the last financial year ended 31 March 2010. With this acquisition, the company hopes to reduce on the competition that it has been facing over the years. The directors also hope to increase the turnover of the combined company (the group). They expect to make savings on costs including the vast amounts previously spent on the expansion of the network. For the foreseeable future, however, the group still hopes to expand their network coverage, work on new products and probably introduce new services.

The financial statements for the year ended 31 March 2011 have not yet been finalised but it is projected that they will show a big loss compared to the profit made in the previous year.

In your own assessment, this will be a complex audit which requires adequate audit planning and risk assessment.

Required:

- (a) From the above scenario, identify and briefly discuss the principal business risks that you think are faced by MobOne Limited.
(18 marks)
- (b) Discuss the relationship between financial statement risk and business risk.
(7 marks)
- (c) As the audit manager on the assignment, briefly describe how the acquisition of Terucom Limited would affect your audit planning for the group financial statements for the year ended 31 March 2010.
(17 marks)
- (d) Discuss the terms “overall audit strategy” and “audit plan” differentiating between the two terms as per International Standard on Auditing 300: Planning an Audit of Financial Statements.
(8 marks)

(Total 50 marks)

SECTION B

Question 2

- (a) Starters Limited has been in existence for some years now and is a long standing client of Twako and Company, Certified Public Accountants where you work as an audit manager. The finance manager of Starters Limited invited you for a discussion where among other issues, you discussed the possibility that there could have been some misappropriations of inventory during the year ending 31 December 2010.

Having received this information, you have assessed a high risk of material misstatement in the financial statements. You are now in the process of preparing for this particular audit and you are preparing a memorandum to be presented to the partners about how you plan to respond to this particular situation.

Required:

Describe the issues that you would include in the memorandum that you are preparing for the partner's review responding to this risk.

(14 marks)

- (b) International Standard on Auditing 315: Identifying and Assessing the risk of Material Misstatements through Understanding the Entity and its Environment (paragraph 10) requires the engagement partner and other key team members to discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The standard also requires the engagement partner to determine the matters to be communicated to the engagement team members not involved in the discussion.

Required:

- (i) Discuss the matters that the partner would ordinarily include in the kind of discussion mentioned above.

(8 marks)

- (ii) Describe the matters that would be included in a letter of engagement in relation to the prevention and detection of fraud.

(3 marks)

(Total 25 marks)

Question 3

Mr. Kulabe has been appointed finance manager of Kibira Limited, a client of Doit and Company, Certified Public Accountants. Kibira Limited owns a chain of hotels spread out in all parts of Uganda. As part of his duties, the finance manager is supposed to set up and monitor key performance indicators in the area of environmental and social performance of the company. Mr. Kulabe has not had any exposure to this area of environmental and social performance at all.

You as audit manager at Doit and Company, Certified Public Accountants, Mr. Kulabe has requested for your assistance in this regard. You have discussed this issue with the partners and they are of the opinion that this would not in any way affect the independence of both the firm and yourself as the engagement manager for this particular assignment.

Required:

- (a) Prepare a memorandum briefly describing the key performance indicators that you would advise the finance manager to set up to monitor the company's environmental and social performance and any evidence that you would expect to find in place regarding those indicators.

(10 marks)

- (b) Discuss the substantive procedures that you would apply to detect a material misstatement due to environmental matters during your audit of the company.

(15 marks)

(Total 25 marks)

Question 4

- (a) International Standard on Auditing 520: Analytical Procedures establishes standards and provides guidance on the application of analytical procedures during an audit. Analytical procedures must be properly documented in order to provide valid support for the audit opinion.

You are the audit manager in one of the audit firms in Kampala and you have informed your audit assistants that you will be placing some reliance on analytical procedures for the purposes of your audit opinion.

Required:

- (i) For each of the three stages of an audit, explain the purposes of utilising analytical procedures and the benefits that could be obtained from their use.

(6 marks)

- (ii) Explain to your audit assistants the kind of details and qualities you would expect to find on the working papers where analytical procedures have been used as substantive tests.

(9 marks)

- (b) You are carrying out the risk assessment procedures for your client and you find that there were big fluctuations in trade and other receivables as compared to the previous period.

Required:

Discuss the possible causes of the following:

- (i) An increase in the level of trade receivables. **(5 marks)**
(ii) A decrease in the level of trade receivables. **(2 marks)**
(iii) A high or rising level of impairment. **(3 marks)**

(Total 25 marks)

Question 5

In today's increasingly competitive manufacturing and trading environment, many businesses are turning to electronic commerce (e-commerce) to ensure that they remain relevant and have an edge over their competitors and ensure that they reach an increasing number of customers. This has inevitably led to increased risk in the running of businesses and thus the risk to the auditors who now have to carry out specialised audit procedures. The client's security infrastructure and related controls are particularly important feature of its internal control system especially when external parties are able to access the system using a public network such as the internet.

You are an audit manager in Brenda & Associates, and your firm has been engaged to carry out an audit of a client who is heavily engaged in e-commerce.

Required:

- (a) Discuss the matters that may be relevant to you as auditors of the company when considering the client's e-commerce strategy in the context of your understanding of the control environment. **(7 marks)**
(b) Explain what you would consider to be the business risks that management faces in relation to the company's e-commerce activities. **(7 marks)**
(c) Discuss the measures that the auditor would consider management to ordinarily have taken to address security risks over their e-commerce activities. **(5 marks)**
(d) Discuss the main objectives of designing controls relating to transaction integrity in an e-commerce environment. **(6 marks)**

(Total 25 marks)