

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

AUDIT THEORY – PAPER 7

WEDNESDAY, 20 JUNE 2012

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. This examination contains Sections **A**, **B** and **C**.
3. Section **A** is bound separately from Sections **B** and **C**.
4. Attempt all the 20 multiple choice questions in Section **A**. Each question carries 1 mark.
5. Attempt the compulsory question in Section **B** carrying 30 marks.
6. Attempt **two** of the **three** questions in Section **C**. Each question carries 25 marks.
7. Write your answer to each question in a separate answer booklet.
8. Please, read further instructions on the answer booklet, before attempting any question.

© 2012 Public Accountants Examinations Board

SECTION B

This section has one compulsory question to be attempted.

Question 2

PILPIL SPEED MERCHANTS (PSM)

PSM is a limited liability company located in Mbale Municipality. It is a reputable dealer in games and sports uniforms and sports equipment. Following the previous year's audit a number of issues were raised on their internal control systems, majorly in the following areas:

Analytical review procedures carried out by the auditors had shown that of the total purchases of inventory for resale of Shs 850 million in the year ended 30 June 2011, purchases of Shs 180 million might have resulted from bogus orders not originating from the central stores. It would also appear that a number of deliveries made might not have measured up to the company's set standards and most likely, value for money may not have been achieved. Furthermore, reasons for returns to suppliers during the year under review had not been quite clear.

Controls over inventory were noted to be poor due to the fact that a number of store documentations were found not to have been filed. Authorisations over dispatch and scrapping of some stores were lacking in many cases. This alone was noted to have affected up to 10 percent of total stock held as revealed by the analytical review.

Reconciliation of cash resources was noted to be taking long to be performed and when performed, supervision by responsible officials was not documented. Some failures of such controls were also partly blamed on the frequent failures of the company's electronic recording keeping system. This affected the execution and the finalisation of the audit as a number of tasks had to be performed manually.

This did not auger well with the board treasurer Ms Connie Onyuu. She is unhappy with the persistent failure by management to put into practice suggestions by independent auditors towards strengthening the internal control systems in a timely manner.

You are employed by Job, Ole and Associates CPA as an Audit Senior and are due to be deployed to PSMS audit commencing sometime in mid June 2012. Your supervisor has briefed you about the above challenges ahead of your assignment.

Required:

- (a) Outline the control objectives that you would advise your audit assistant to consider when testing the PSM purchases cycle.
(7 marks)
 - (b) Draft a brief memorandum to the board treasurer, Ms. Connie Onyuu, on the tests of control you would perform over the PSM's inventory system.
(10 marks)
 - (c) Briefly explain the matters you must consider when attending a cash count at the client's premises as part of the year end procedures.
(6 marks)
 - (d) State the benefits of computer assisted audit techniques to the auditor.
(7 marks)
- (Total 30 marks)**

SECTION C

Attempt two of the three questions in this section.

Question 3

AGWIRI MANUFACTURING COMPANY (AMC)

You have been appointed by Messrs Nduggu, Mulondo & Associates (NMA), CPA as an audit senior. NMA are the independent auditors of AMC.

AMC is a medium-sized company specializing in the making of tissues and other associated products out of papyrus reeds.

AMC has been facing a lot of challenges with control over its trade receivables, payables and property, plant and equipment. You have been assigned to head the field audit of AMC.

Required:

- (a) Explain the substantive audit procedures you would employ during your audit of trade receivables balances of AMC.
(10 marks)
 - (b) Outline the methodology you would follow when circularizing accounts receivables balances.
(6 marks)
 - (c) State the possible misstatements that could exist in the property, plant and equipment register of AMC resulting from errors or fraud.
(9 marks)
- (Total 25 marks)**

Question 4

CLIENT ASSURANCE SERVICES

Mzawa Associates is one of the indigenous audit firms registered with the Institute of Certified Public Accountants of Uganda. The firm plans to expand its operations to the greater East African region.

As part of its recruitment drive in Rwanda, Mzawa Associates is to be involved in a training code named “mlinzi wa pesa”, which is intended to help accountants ensure that their clients’ financial resources and information technology (IT) are protected from errors, frauds and abuse.

You are an audit senior at Mzawa Associates and intending to make presentations relating to audit of cash and bank balances, internal control and auditing in IT environment.

Required:

- (a) Outline the major substantive audit procedures you would discuss in relation to the audit of bank balances.
(8 marks)
- (b) Prepare a brief summary of threats to internal control that can be caused by operating in an IT environment.
(7 marks)
- (c) Briefly state circumstances that could lead to errors and fraud due to an entity’s weak internal control system over assets.
(10 marks)

(Total 25 marks)

Question 5

AKWATA EMPOLA FARMERS ASSOCIATION (AKEF)

AKEF is an association of coffee farmers with its headquarters in Nakaseke district with branches all over the Buganda region. The board members, in their recent end of year meeting, proposed to outsource the internal audit function from their long serving financial consultants, Atekka L'audit Financial Consultants (AFRICO).

AKEF's board has written to your audit firm, who are also their external auditors, to advise them on outsourcing the internal audit function. Your audit manager has assigned you prepare for her the material to be discussed with the board of AKEF.

Required:

Draft a memo for your audit manager explaining the:

- (a) merits and demerits of outsourcing the internal audit function.
(18 marks)
- (b) controls that AKEF can establish over the outsourced internal audit function.
(7 marks)

(Total 25 marks)