

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL THREE

AUDITING & OTHER ASSURANCE SERVICES – PAPER 15

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. Section **A** has one compulsory case study question carrying 50 marks.
3. Section **B** has **four** questions and only **two** are to be attempted. Each question carries 25 marks.
4. Write your answer to each question in a separate answer booklet.
5. Please, read further instructions on the answer booklet, before attempting any question.

SECTION A

This section has one compulsory question to be attempted.

Question 1

Umoja Credit was set up by the government in an effort to try and achieve one of the millennium development goals of eradicating poverty. The organisation is involved in providing credit facilities to the poorer sections of society in order to uplift them into a life of relative comfort.

This poverty eradication programme is based in one of the ministries but is run by a secretariat composed of an executive director, an office assistant and an internal auditor. The organisation does not have a substantive head of finance and the general manager is the de facto head of finance. In reality, the internal auditor carries out the work of the accountant.

In the various districts where it is operational, committees are required to be set up to run the schemes within their districts. The committees are assisted in the preparation of their accounting records by a bookkeeper who is employed and paid by them. There is a district manager at each district assisted by three credit assistants each of whom is charged with reviewing the loan applications approved by the committees, making recommendations on loans to be issued, and all other duties designed to ensure that the funds of the programme are not misappropriated and that they are duly utilised to achieve the intended objectives. Each district also has an accounts assistant whose major duty is the preparation of the accounting records. Some former staff were, however, threatening to sue the general manager and the organisation for having been unfairly dismissed from their jobs in the organisation.

The minister in charge of this programme appointed a board of directors to oversee the operations of the programme. It has, however, been disclosed to you that the board rarely meets to discuss the affairs of this programme due to lack of funds to finance their operations. The committees of the board were discussed at one time but they have not yet been constituted or operationalised.

The internal auditor is supposed to oversee the internal audit department which has a staff of four. These four are supposed to cover the whole country in their audit work. It has also come to your attention that the duties of the internal auditor and indeed the whole department are not clearly specified. The reporting lines of the auditor are also more or less hazy. The reports prepared are not regular and are sometimes simply filed away without being reviewed by anyone.

The organisation is just in the process of preparing various operational manuals including the accounting manual, the human resource manual, the

procurement manual, the asset management manual and others of relevance to the smooth running of the organisation. The manuals will require board approval prior to becoming operational.

The district committees lend out funds provided by the government at a rate set directly by the government. The scheme operates on a revolving basis with the principal returned being lent to other eligible citizens. The interest earned from this process is shared out with the secretariat getting 40% and the district committees retaining 60% in order to be able to finance their operational costs and to also grow the fund to reach out to more people.

Borrowers are organised in groups with group members acting as guarantors for each other. In spite of this however, some borrowers still get the funds and subsequently fail to pay back which discourages the paying members who may have to bear the burden of repaying those loans. Others even go to the extent of fleeing the villages and relocating to other faraway places having sold their land in secret. Furthermore, because of the immaturity of the banking system in the countryside, the group treasurers normally have to traverse long distances to the bank and back to their respective villages while holding huge sums of money. They do not have insurance cover for the large sums of money that they carry on their person. They also cannot afford to have security guards and normally use public means of transportation. While at their stations, funds are kept in a safe deposit box which is kept by the treasurer. The box has two locks with the keys kept by two different members of the group who always need to be around in order to open it up. This is however not always done and sometimes the other key custodian leaves the key with the chairperson of the group in case he might not be around at meeting time. The chairperson and treasurer are cousins.

The books both at the secretariat and districts are laden with many long outstanding loans and even others that might be classified as bad. Both the districts and the secretariat do not have an ageing schedule of borrowers and neither have they made any provisions for bad and doubtful debts in their books of account. In addition, there are indications that the organisation actually prepared two sets of records in an effort to hide certain information.

You are an audit manager in Kis & Co. Certified Public Accountants. Your firm was appointed during April 2012 to carry out the audit of this revolving credit fund for the year ended 31 March 2012 and the partner in charge has requested you to start planning for this audit assignment. In particular, because of the uniqueness of this assignment, he has requested you to prepare audit programmes which you will discuss with the auditor in charge and the team. You received a briefing on the operations of the fund from a consultant who has been carrying out an investigation in some aspects of the operation of the scheme.

Required:

- (a) Define the term 'audit programme' and explain the issues you need to take into consideration as you prepare one.
(5 marks)
- (b) Discuss the matters that you would take into account when planning for this assignment.
(12 marks)
- (c) Giving reasons, show how you would gauge the riskiness of this particular client.
(14 marks)
- (d) Explain the audit approach you would advise your team to take basing on the level of risks found in (c) above.
(5 marks)
- (e) Prepare a memorandum explaining the factors your firm needs to take into consideration before accepting appointment as auditors of Umoja Ltd.

(14 marks)
(Total 50 marks)

SECTION B

Attempt two of the three questions in this section.

Question 2

Fair Dealings Ltd is a company dealing in transnational trade. The company is managed by hired managers who are quite separate from the owners. The company recently hired your firm to carry out the audit of the financial statements for the year ended 30 September 2011. You are a manager in the audit department of your firm and your auditor in charge has informed you that during the course of the audit, he found evidence indicating that management was involved in carrying out some illegal activities. He subsequently informed the management of his findings but was advised to ignore them.

The auditor in charge is wondering whether he should report his findings to the police for them to take action and has come to you for advice on how to proceed. Your review of the findings indicates that this is a high risk client who could lead to the firm incurring costs due to negligence in case a wrong opinion was issued.

Required:

- (a) Prepare a letter advising the partners of your firm on what the firm needs to do to minimize costs arising out of negligent work.
(17 marks)
 - (b) Explain the course of action that the firm should take in light of the illegal activities discovered during the audit.
(8 marks)
- (Total 25 marks)**

Question 3

Saidia Leo is a civil society organisation based in Northern Uganda. They receive grants and donations from development partners to enable them carry out their activities. During the period ending 31 December 2011, funds were spent on several activities which included training peasants, constructing roads, valley dams, wells and springs, providing farm inputs to the farming communities and many other activities. One of the staff recently dismissed from the organisation sent an email to one of the donors alleging that some of the said benefits had not actually reached the intended beneficiaries and that some construction work was substandard. The donor's representatives requested local firms of auditors for proposals to carry out a value for money audit.

You are the manager in charge of audits with Tuliwano & Partners, Certified Public Accountants. The partners have requested you to prepare a presentation to be made to the donor's representatives in the very near future. You have been advised that the presentation should include, among other things, the areas of coverage in value for money audits, informing the donor about how you intend to carry out this assignment and what you expect to include in your report.

Required:

- (a) Explain what you would include in an audit plan of a value for money assignment.
(7 marks)
 - (b) Prepare a presentation to be made to the donor clearly elaborating on the specific areas you would need to cover when carrying out a value for money audit.
(10 marks)
 - (c) Describe, in terms of structure and content, what you would include in a value for money audit report.
(8 marks)
- (Total 25 marks)**

Question 4

Bunas Ltd deals in the importation and sale of various household goods. The head office is located in Kampala. The company also has branches in all the regions of Uganda. Transactions from all their branch offices are posted in a real time system and, for this matter the computers located at the branches are connected to the main computer at the head office through direct communication lines.

Mr. Busole is the director of finance at Bunas Ltd. He approached the partners at your firm and expressed his concerns about his fears that strangers could gain unauthorised access to confidential company information through the terminals located outside the head office. He requested the partners at your firm for some advice on the kinds of controls he could institute to ensure that this does not happen.

You are a manager at Kanil & Co. Certified Public Accountants. The Partners have requested you to prepare a document for Mr. Busole advising him on these controls.

Required:

- (a) Describe the controls that Bunas Ltd can exercise over access to information and updating of files from terminals located outside the head office.

(12 marks)

- (b) Explain the controls that the company should exercise over their transactions ledgers when retrieving information, updating transaction files and amending standing data files.

(8 marks)

- (c) Explain the procedures that the company should put in place to check whether any attempts have been made to have unauthorised access to the company's computer system and how management could detect unauthorised amendments.

(5 marks)

(Total 25 marks)

Question 5

Moses Okello is an audit manager at Bizcon & Co., Certified Public Accountants. The firm was recently appointed to audit Motormart Ltd, a large company that imports, sells, maintains and leases motor vehicles. During the pre-audit meeting, management requested Moses Okello to fully cooperate with their internal audit department as a means of keeping audit costs within manageable reach. The firm is thus required to place reliance on the work already performed by the internal audit department.

Moses Okello was also informed that the internal audit department performs the following functions for the company:

- Audit of the operation of internal controls in the company's major functions such as finance, operations, information services and customer care.
- Review of the structures of internal controls in each of the major functions every three years.
- Annual reviews of the effectiveness of measures put in place by management to minimise major risks faced by the company.

During the year under review, the company also had major restructuring in the information systems department and the internal audit department was closely involved in the preparation of plans for the restructuring and the related post restructuring and post implementation review.

Required:

- (a) Discuss the extent to which Moses Okello should rely on the work of the internal audit staff.

(13 marks)

- (b) Describe the information Moses Okello would seek from the internal audit department in order for him to determine the extent of your reliance.

(6 marks)

- (c) Explain why it will be necessary for the firm to perform its own work in certain audit areas in addition to relying on the work already performed by internal audit department.

(6 marks)**(Total 25 marks)**