



## QUESTION ONE

**Read the Case Study below carefully and answer the questions that follow:**

### **BATELEUR ZOO GARDENS (BZG)**

The principal activity of Bateleur Zoo Gardens (BZG) is the conservation of animals. approximately 80% of the zoo's income comes from admission fees, money spent in the food and retail outlets and animal sponsorship. The remainder comprises donations and investment income.

Admission fees include day visitor entrance fees ('gate') and annual membership fees. Day tickets may be pre-booked by credit card using a telephone booking 'hotline' and via the zoo's website. Reduced fees are available (e.g. to students, senior citizens and families).

Animal sponsorships, which last for one year, make a significant contribution to the cost of specialist diets, enclosure maintenance and veterinary care. Animal sponsors benefit from the advertisement of their names at the sponsored animal's enclosure. BZG's management has identified the following applicable risks that require further consideration and are to be actively managed:

- (i) Reduction in admission income through failure to invest in new exhibits and breeding programs to attract visitors;
- (ii) Animal sponsorships may not be invoiced due to incomplete data transfer between the sponsoring and invoicing departments;
- (iii) Corporate sponsorships may not be charged for at approved rates - either in error or due to arrangements with the companies. In particular, the sponsoring department may not notify the invoicing department of reciprocal arrangements, whereby sponsoring companies provide BZG with advertising (e.g. in company magazines and annual reports);
- (iv) Cash received at the entrance gate ticket offices ('kiosks') may not be passed to cashiers in the accounts department (e.g. through theft);
- (v) The ticket booking and issuing system may not be available;
- (vi) Donations of animals to the collection (e.g. from Customs and Excise seizures and rare breeds enthusiasts) may not be recorded.

**Required:**

- a) Describe suitable internal controls to manage each of the applicable risks identified. **(12 marks)**
- b) Comment on the factors to be considered when planning the extent of substantive analytical procedures to be performed on BZG's income. **(7 marks)**
- c) Suppose you are called upon by BZG to audit their business, describe the audit work to be carried out in respect of the useful life of the BZG brand. **(6 marks)**

**QUESTION TWO**

You are the manager responsible for the audit of Eagle Energy, an energy generation company. The draft financial statements for the year ended 31 March 2014 show revenue of Shs.287 million (2013 - Shs.262 million), profit before taxation of Shs.7.2 million (2013 - Shs.23 million) and total assets of Shs.242 million (2013 - Shs.221 million). The following issues arising during the final audit have been noted on a schedule of points for your attention:

- (a) During the year Eagle Energy put its technical staff through a new training program. On the basis that this expenditure has been incurred solely for the purpose of generating future economic benefits the chief executive is adamant that the costs, amounting to Shs.4.3 million, be capitalised as an intangible asset. **(5 marks)**
- (b) During the year Eagle Energy assembled a laboratory on land which had been granted to it for 25 years, by the local authority, in 1995. Under the terms of the grant the laboratory must be dismantled and the site decontaminated when the grant term expires. This is expected to cost Shs.18 million in 2020 and an annual provision of Shs.1.2 million is being made. **(5 marks)**
- (c) Eagle Energy receives significant funding from government sources and is required to report, monthly, on its financial performance and position. Every month end a journal entry is made, 'Debit Sundry 1 account/Credit Sundry 2

account'. There is no narrative but the chief accountant explained that the journal is approved by the chief executive to ensure that reported debt ratios stay within government specified limits. The entries are then reversed at the beginning of the following month. The net movement on these accounts over the year to 31 March 2014 was Shs.0 3 million. **(5 marks)**

**Required:**

For each of the above issues (a,b,c):

- i) Comment on the matters that you should consider; and
- ii) State the audit evidence that you should expect to find, in undertaking your review of the audit working papers and financial statements of Eagle Energy for the year ended 31 March 2014.

**QUESTION THREE**

- (a) Explain why quality control may be difficult to implement in a smaller audit firm and illustrate how such difficulties may be overcome. **(5 marks)**
- (b) Kite Associates is an association of small accounting practices. One of the benefits of membership is improved quality control through a peer review system. Whilst reviewing a sample of auditor's reports issued by Rook & Co, a firm only recently admitted to Kite Associates, you come across the following qualified opinion on the financial statements of Lambada Group: "Qualified opinion arising from disagreement about accounting treatment relating to the non-adoption of IAS". The management has not prepared a group cashflow statement and its associated notes. In the opinion of the management it is not practical to prepare a group cashflow statement due to the complexity involved. In our opinion the reasons for the departure from IAS 7 are sound and acceptable and adequate disclosure has been made concerning the departure from IAS 7. The departure in our opinion does not impact on the truth and fairness of the financial statements. 'In our opinion, except for the non-preparation of the group cashflow statement and associated notes, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013 and of the profit of the group for

the year then ended, and have been properly prepared in accordance with ...'  
Your review of the prior year auditor's report has revealed that the 2012 year-end audit opinion was identical.

**Required:**

Critically appraise the appropriateness of the audit opinion given by Rook & Co on the financial statements of Lambada Group for the years ended 31 December 2013 and 2012. **(10 marks)**

**QUESTION FOUR**

You are a training manager in Mhasibu Associates, a firm of Chartered Certified Accountants. The firm has suffered a reduction in fee income due to increasing restrictions on the provision of non-audit services to audit clients. The following proposals for obtaining professional work are to be discussed at a forthcoming in-house seminar:

(a) 'Cold calling' (i.e. approaching directly to seek new business) the chief executive officers of local businesses and offering them free second opinions.

**(5 marks)**

(b) Placing an advertisement in a national accountancy magazine that includes the following: 'If you have an asset on which a large chargeable gain is expected to arise when you dispose of it, you should be interested in the best tax planning advice. However your gains might arise, there are techniques you can apply. Mhasibu Associates can ensure that you consider all the alternative fact presentations so that you minimise the amount of tax you might have to pay. No tax saving - no fee!'

**(6 marks)**

(c) Displaying business cards alongside those of local tradesmen and service providers in supermarkets and libraries.

The cards would read:

'Mhasibu ACCA Associates

For PROFESSIONAL Accountancy, Audit,

Business Consultancy and Taxation Services

Competitive rates. Money back guarantees.' **(4 marks)**

**Required:**

Comment on the suitability of each of the above proposals in terms of the ethical and other professional issues that they raise.

**QUESTION FIVE**

International Standard on Auditing ISA 240 'The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements' distinguishes fraud from error, sets out the auditor's responsibilities with respect to fraud, and provides additional guidance related to earnings management.

**Required:**

- i) Compare and contrast the auditor's responsibility for the detection and reporting of fraud and of error. Your answer should distinguish fraud from error. **(5 marks)**
- ii) Explain the term 'professional skepticism' and comment on its role in the detection of fraud. **(5 marks)**
- iii) Comment on the difficulties which 'earnings management' present to the auditor. **(5 marks)**

**QUESTION SIX**

- (a) Describe the role of internal audit services in a family business and state the key steps involved in undertaking an audit assignment **(7 marks)**
- (b) Explain the advantages and disadvantages of internal control system. **(8 marks)**