UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS AND MANAGEMENT STUDIES
SUPPLIMENTARY/SPECIAL EXAMINATION 2023/2024

COURSE NAME	:	**AUDITING**
COURSE CODE	:	**AUD 3202**
YEAR OF STUDY	:	**THREE**
TIME ALLOWED	:	**3 HOURS**
EXAM DATE	:	**Monday 15th July 2024**

INSTRUCTIONS :

i - **Attempt Four Questions in All.**

ii - **Section A, Question One is Compulsory**

iii - **Answer any other Three Questions in Section B**

iv - **Indicate the Question Number you are Answering**

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SECTION A

Question One: [Compulsory]

Accountancy Training Center is approved by the Accountancy Body in Uganda to conduct professional training leading to the award of CPA in Uganda. This institution was approved by the Accountancy body 7 years back. The instructors in training center are being paid per hour, the hours being taught being recorded on the attendance list (Students register their names). All lectures are conducted in the evening from 6.00 pm to 9.30 pm. Currently they are facing certain challenges as highlighted by one of the staff.

a) The Instructors/ lecturers are supposed to hand in the attendance lists after the lectures but unfortunately by the time lectures end at 9.30pm the administrative staff have already left. This implies that the instructor hands in the attendance form the next day. Other Instructors in the process lose the lists. Sometimes the Instructors hand in the attendance lists but the administrators cannot trace such lists at the end of the month when they want to pay staff.

Complaints have also been raised by the administrators that some Instructors hand in attendance lists even when they have not taught.

b) 90% of the Instructors are part time staffs who work some where else. They usually come late for the lectures. This leads to non coverage of the syllabus yet students sit external examinations set by the Accountancy Body in Uganda. No one in the administration is assigned the duty of checking the coverage of the syllabus by the lecturer.

c) Students are supposed to have paid 50% of the tuition by the 6^{th} week, if not so they are not supposed to attend classes. An administrator is supposed to check and allow in only those that have paid. However, complaints have been raised that administrators allow their friends who are students to continue with classes even with out payment. Cases have also been reported of private coaching by some Instructors discouraging students not to attend classes and instead pay money to the Instructors after all exams are from the National Accountancy Board not the training Center.

d) The Accountancy Training Center is also facing a challenge of students who do not pay. They attend lectures for the first six weeks and thereafter they revise on their own since exams are set by an external body. The training center has no control over withholding results for the students who attended lectures for the first six weeks but never paid. The Instructors have also complained that they are being paid depending on the size of the class after enforcement of fees payment. In fact there cases when some Instructors considered important (teaching big classes) are paid when Instructors teaching small classes are not paid.

Required.

Your firm has been hired as auditors of Accountancy Training limited. This is the first time this institution is having its books of account audited.

i) Identify the weaknesses in the system of Accountancy Training Center. ***[5 marks]***

ii) Write a management letter of weaknesses highlighting the weaknesses in the system (For each Weakness indicate its implication and recommendation) ***[15 marks]***

iii) Highlight the importance of an external audit for such an institution. ***[5 marks]***

SECTION B

Question Two :

Victoria Supermarkets Ltd (VSL) operates supermarkets in 20 municipalities in Uganda. The company's year-end is 31 December 2021. The audit manager and partner recently attended a planning meeting with the finance director and have provided you with the planning notes below.

You are the audit senior and this is your first year on this audit. In order to familiarize yourself with VSL, the audit manager has asked you to undertake some research in order to gain an understanding of the company, so that you are able to assist in the planning process. He has then asked that you identify relevant audit risks from the notes below and also consider how the team should respond to these risks.

VSL has spent Shs 600 million in refurbishing all of its supermarkets. As part of this refurbishment programme their central warehouse has been extended and a smaller warehouse, which was only occasionally used, has been disposed of at a profit. In order to finance this refurbishment, a sum of Shs 500 million was borrowed from the bank. This is due to be repaid over five years.

The company will be performing a year-end inventory count at the central warehouse as well as at all 20 supermarkets on 31 December 2021. Inventory is valued at selling price less an average profit margin as the finance director believes that this is a close approximation to cost.

Prior to 2021, each of the supermarkets maintained their own financial records and submitted returns monthly to head office. During 2021 all accounting records have been centralized within head office. Therefore at the beginning of the year, each supermarket's opening balances were transferred into head office's accounting records. The increased workload at head office has led to some changes in the finance department and in November 2021 the financial controller resigned. His replacement will start in late December 2021.

Required:

a) Using the information provided, describe **FIVE** audit risks and explain the auditor's response to each risk in planning the audit of VSL. ***[20 marks]***

b) It is the duty of an Auditor to obtain and evaluate evidence against the assertions made in the financial statements. State and explain five assertions made in the Financial Statement. ***[5marks]***

Question Three:

ISA.610: Defines Internal Audit as; "An appraisal or monitoring activity established by management and the directors, for the review of the accounting and internal control systems as a service to the entity".

a) Discuss the scope of the internal Audit as may be set by Management of a manufacturing entity *[5 marks]*

b) Explain the key aspects which the external auditor will have to assess before relying on the work of internal auditors ***[5 marks]***

c) Your firm is the auditor of Leisure limited , a company operating three large centers which sell wooden furniture (such as garden benches, seats and playhouses) to the general public. You are involved in the audit of the company's Non-current assets. The main categories of Non-current assets are as follows:
- Land and buildings (all of which are owned outright by the company)
- Computers (on which an inventory control and sales system is operated)
- A number of large and small vans, mostly used for the delivery of inventory to customers
- Equipment for packaging and pricing products.

Required:

i) Explain the main risks associated with financial statement assertions relating to Non Current assets. ***[5 marks]***

ii) List the sources of evidence available to verify the ownership and cost of land & buildings, computers and motor vehicles. ***[5 marks]***

iii) As an auditor, describe the substantive procedures you would carry out to confirm completeness in relation to the Non-current assets above. ***[5marks]***

Question four:

a) Explain the concepts of materiality and its performance in accordance with ISA 320 ***[4 marks]***

b) Explain factors that are used by the auditor in determining what is considered material. ***[4 marks]***

c) Define a 'test of control' and give an example of a test of control in relation to the audit of revenue. ***[4 marks]***

d) Define a 'substantive procedure' and provide an example of a substantive procedure in relation to the audit of non-current assets. ***[4 marks]***

e) ISA 230 *Audit Documentation* deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. State FOUR benefits of documenting audit work. ***[4 marks]***

f) ISA 500 *Audit evidence* requires auditors to obtain sufficient and appropriate audit evidence. Appropriateness is a measure of the quality of audit evidence; that is, its relevance and its reliability. Identify and explain Five factors which influence the reliability of audit evidence. ***[5 marks]***

Question Five:

You are an audit senior with a firm of certified public accountants. You have been assigned to head the team of auditors for XY limited which runs many supermarkets in the country with the brand name Pay for Quality supermarkets. The company is owned by a group of families who raised the initial capital to start it up and many of whom have continued to be involved in the day-to-day management of the company. One of the difficulties being faced by XY limited is the loan repayment. Currently XY limited is servicing 3 loans from three different commercial banks. After the monthly loan repayments the company is left with very little money to sustain its daily operations. Employees have not been paid for the last three months while suppliers have started demanding cash on delivery since they have big outstanding balances with XY limited. Further, Capital shoppers, a bigger supermarket has established a one stop shopping center in the same location of XY limited, which has resulted into a decline in the daily sales revenues of XY.

Required:

a) Using the information in the case above, highlight the factors that indicate that XY may not be a going concern. ***[5 marks]***

b) Explain the audit procedures you would carry out to give further assurance that the company can indeed continue trading as a going concern. ***[10 marks]***

c) In case you concluded that the company was indeed unable to continue trading for the foreseeable future, explain briefly the audit opinion that you would give if management refuses any disclosure to be made on going concern. ***[10 marks]***

Question Six:

a) You are a manager in Precise Auditors and Co (PAC) who are the external auditors for Makerere Microfinance Ltd (MML). MML provides loans to the general public and is regulated by Bank of Uganda. You have been asked to start the audit planning for MML by Mr Bebi, a partner in PAC. Mr Bebi has been the engagement partner for MML for the previous nine years and therefore has good knowledge of this client. Mr. Bebi has informed you that he would like his son Cool to be part of the audit team this year. Cool is at present pursuing a Bachelor of Commerce Degree at Uganda Martyrs University and did his previous internship in MML. Mr. Bebi also informs you that Sali, the auditor senior, received a loan from MML.

In an initial meeting with the financial controller, you learn that the audit team will be offered loans at interest rates lower than the commercial ones. The financial controller has also promised you a fee for your taxation services this year based on a percentage of tax saved and hopes that your firm will accept a fixed fee for representing MML in a dispute regarding the amount of income tax payable to Uganda Revenue Authority.

Required:

i) Explain **FIVE** ethical threats that may affect the independence of PAC during the audit of MML ***[10 marks]***

ii) For each of the threat, explain how the threat may be avoided. ***[5 marks]***

b) All Chartered Certified Accountant who act as Auditors Should comply with their Associations rules of professional conduct which are applicable to all members. Failure to comply with the rules may lead to disciplinary action by the association which could result into fine, reprimand or exclusion from the Association'

i) Discuss how relying on one client too heavily in respect to fee income can result in risk to a firm of Auditors. ***[5 marks]***

ii) In what circumstances is an auditor permitted or required to disclose confidential information about his clients, and comment on whether or not that this conflicts with his duty of confidentiality. ***[5 marks]***