

**UGANDA MARTYRS UNIVERSITY  
NKOZI/LUBAGA CAMPUS**

**FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**DEPARTMENT OF ACCOUNTING & FINANCE  
SEMESTER TWO 2018/19  
B.A. MF III RUBAGA**

**COURSE UNIT: AUDIT & INTERNAL CONTROLS IN MFIs**

**DATE: 3<sup>rd</sup>/05/2019**

**Time allowed: 3hours**

**Instructions to Candidates:**

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Write neatly and show all workings clearly.
- 3) Start every question on a new page
- 4) Clearly state the question number & sections attempted
- 5) Answer **any four** questions, all questions carry equal marks

**Question One:**

- a) You have just been appointed as an auditor to Dual Sales company Ltd, a company that has been set up by three individuals, a web designer, an accountant and a lawyer. The idea behind the company is to provide an outlet for local businesses who wish to sell products over the internet but do not have the resources to set it up themselves. Dual sales co. Ltd will enter all the products for a business on their site, when an order is received they will inform the business [client] of the sale and when they have received confirmation of dispatch will process the credit card payment. At the end of each month, they account to the individual clients or businesses, paying over 93% of the amount processed. The remaining 7% is retained as commission to cover the costs of administering the shop site.

**Required:**

- i)* Advise the client on the risks that are associated with this type of business. **[8 marks]**
  - ii)* Consider the internal controls that they may put in place in order to mitigate these risks. **[7 marks]**
- b) ISA 320 *Materiality in planning and performing an audit* provides guidance on the concept of materiality in planning and performing an audit.

***Required:***

- i)* Explain the concepts of materiality in accordance with ISA 320 and show how it guide the planning process. **[2 marks]**
  - ii)* Explain factors that are used by the auditor in determining what is considered material. **[2 marks]**
  - iii)* Explain the relationship between materiality and audit risk. **[2 marks]**
  - iv)* You are carrying out an audit of NSSF with PBT of Shs 100 billion and total assets of Shs 2 trillion. You have discovered fraud of Shs 20 million involving the managing director. Explain whether this matter affects the users of the financial statements of NSSF. **[2 marks]**
- c) Explain the term “Fraudulent Financial Reporting as used in Auditing. **[2 marks]**

***Question Two:***

- a) Discuss who is eligible to be an auditor in Uganda according to the Companies Act and why such requirements exist. **[8 marks]**
- b) ICPAU has issued a code of ethics to members to guide them in areas where an ethical dilemma may exist. Discuss the fundamental principles of the code of ethics. **[7 marks]**
- c) 'Professional independence is currently seen as the core as far as ethical issues in auditing are concerned. Independence is both something that is a matter of fact but is also something which is a matter of appearance. It is important to be independent, but it is also important to appear to be independent.'

***Required:***

- i) Explain, with illustrations, the importance of the concept of professional independence to the auditor. **[4 marks]**
- ii) Outline and briefly explain at least **six** ways in which the auditors' independence can be impaired. **[3 marks]**
- iii) Suggest five safeguards that will reduce the threat to independence. **[3 marks]**

***Question Three.***

- a) ISA 300 (revised) planning an audit of financial statements sets out the basic reasoning for audit planning: the auditor should plan the audit work so that the audit will be performed in an effective manner.

**Required:** Discuss the importance of planning an audit. **[5 marks]**

- b) Explain the term audit program and discuss its importance in carrying out audit assignments. **[5 marks]**
- c) ISA 500 requires that an auditor obtains sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.  
**Required.** Discuss the various methods that can be used by an auditor to collect audit evidence. **[5 marks]**
- d) Identify and explain **THREE** factors which influence the reliability of audit evidence. **[5 marks]**
- e) State and explain three types of Advisory services offered by the Auditors. **[5 marks]**

#### **Question Four: [10 marks]**

- a) ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* requires the auditor to obtain an understanding the entity and its environment, including the entity's internal control, as a basis for designing and performing audit procedures in response to the assessed risks of material misstatement.  
**Required:** Highlight matters the auditor may consider when obtaining an understanding of the entity. *[8 marks]*
- b) Define Auditing according to ISA. 200 and give four reasons why its considered important for shareholders. *[5 marks]*
- c) Give the difference between Statutory Audit and management Audit. Then state five Advantages of Statutory Audit. *[7 marks]*
- d) State and explain five Qualities of A professional Auditor. *[5 marks]*

#### **Question Five:**

It is now 3 February 2016, the audit of Zombo Ltd is nearly complete and the financial statements and the audit report are due to be signed the following week. However, the following additional information on two material events has just been presented to the auditor. The company's year-end was 31 December 2015.

##### **Event 1 – Occurred on 10 January 2016**

The springs is a new type of mattress and it has been found to be defective making the mattress unsafe for use. There have been no sales of this mattress; it was due to be marketed in the next few weeks. The company's insurer estimate that inventory to the value of Shs 75 million has been affected. The insurers also estimate that the mattresses are now only worth Shs 20 million. No claim can be made against the supplier of springs as this company is in liquidation with no prospect of any amounts being paid to third parties. The insurers will not pay Zombo for the fall in value of the inventory as the company was underinsured. All of this inventory was in the finished goods store at the end of the year and no movements of inventory have been recorded post year-end.

##### **Event 2 – Occurred 5 March 2016**

Production at the Jinja factory was halted for one day when a truck carrying dye used in coloring the fabric on mattresses reversed into a metal pylon, puncturing the vehicle allowing dye to spread across the factory premises and into River Nile. NEMA is currently considering whether the release of dye was in breach of environmental legislation. The company's insurers have not yet commented on the event.

**Required:**

a) For each of the two events above:

- i. Explain whether the events are adjusting or non-adjusting according to IAS 10 *Events after the reporting period*. **[10 marks]**
- ii. Explain the auditors' responsibility and the audit procedures and actions that should be carried out according to ISA 560 *Subsequent events*. **[8 marks]**

b) Assume that the date is now 30 April 2016, the financial statements and the audit report have just been signed and the annual general meeting is to take place on 10 May 2016. The Environmental Agency has issued a report stating that Zombo Ltd is in breach of environmental legislation and a fine of Shs 90 million will now be levied on the company. The amount is material to the financial statements.

**Required:**

Explain the additional audit work the auditor should carry out in respect of this fine. **[7 marks]**

**Question Six:**

Mermaid Co is an established pharmaceutical company that has for many years generated 90% of its revenue through the sale of two specific cold and flu remedies. Mermaid has lately seen a real growth in the level of competition that it faces in its market and demand for its products has significantly declined. To make matters worse, in the past the company has not invested sufficiently in new product development and so has been trying to remedy this by recruiting suitably trained scientific staff, but this has proved more difficult than anticipated. In addition to recruiting staff the company also needed to invest \$2m in plant and machinery.

The company wanted to borrow this sum but was unable to agree suitable terms with the bank; therefore it used its overdraft facility, which carried a higher interest rate. Consequently, some of Mermaid suppliers have been paid much later than usual and hence some of them have withdrawn credit terms meaning the company must pay cash on delivery. As a result of the above the company's overdraft balance has grown substantially. The directors have produced a cash flow forecast and this shows a significantly worsening position over the coming 12 months. They do not intend to make any disclosures in the accounts regarding going concern.

**Required:**

- a) Identify any potential indicators that the company is not a going concern and describe why these could impact upon the ability of the company to continue trading on a going concern basis. **[15 marks]**
- b) Discuss the auditor's responsibility on reporting about the going concern status of the client and how this would affect his audit report if there is enough evidence that Mermaid may not be a going concern. **[10 marks]**

*End of Exam Paper*