

Original

UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS

ADMINISTRATION AND MANAGEMENT YEAR - THREE SEMESTER TWO

(BAM 3 EVENING- MASAHA/LUBAGA/MBALE/NGETTA CAMPUS)

CODE: AUD 3202

COURSE: AUDITING

DATE: MONDAY, 18th JULY 2022

TIME: 9:30 AM- 12:30PM (3 Hours)

Instructions:

- (i) The Paper consists of Seven Questions.
 - (ii) Attempt any **Four** Questions
 - (iii) All questions carry equal marks
 - (iv) Your work must be neat and show all the relevant workings
 - (v) Mobile Phones are not allowed in the examination room
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Question One.

You are an audit supervisor of Ham & Co and you are reviewing the documentation describing Com Publishing Co's purchases and payables system in preparation for the interim and final audit for the year ending 30 September 20X7. The company is a retailer of books and has ten stores and a central warehouse which holds the majority of the company's inventory.

Your firm has audited Com Publishing Co for a number of years and as such, audit documentation is available from the previous year's file, including internal control flowcharts and detailed purchases and payables system notes. As far as you are aware, Com Publishing Co's system of internal control has not changed in the last year. The audit manager is keen for the team to utilize existing systems documentation in order to ensure audit efficiency. An extract from the existing systems notes is provided below.

Extract of purchases and payables system

Store managers are responsible for ordering books for their shop. It is not currently possible for store managers to request books from any of the other nine stores. Customers who wish to order books, which are not in stock at the branch visited, are told to contact the other stores directly or visit the company website. As the inventory levels fall in a store, the store manager raises a purchase requisition form, which is sent to the central warehouse. If there is insufficient inventory held, a supplier requisition form is completed and sent to the purchase order clerk, Oliver Dancer, for processing. He sends any orders above ugx 1,000,000/= for authorization from the purchasing director.

Receipts of goods from suppliers are processed by the warehouse team, who agree the delivery to the purchase order, checking quantity and quality of goods and complete a sequentially numbered goods received note (GRN). The GRNs are sent to the accounts department every two weeks for processing.

On receipt of the purchase invoice from the supplier, an accounts clerk matches it to the GRN. The invoice is then sent to the purchase ordering clerk, Oliver, who processes it for payment. The finance director is given the total amount of the payments list, which she authorizes and then processes the bank payments. Due to staff shortages in the accounts department, supplier statement reconciliations are no longer performed.

Other information - conflict of interest

Ham & Co has recently accepted the audit engagement of a new client, Edmond Co, who is the main competitor of Com Publishing Co. The finance director of Com Publishing Co has enquired how Ham & Co will keep information obtained during the audit confidential.

Required:

(a) Explain the safeguards which Ham & Co should implement to ensure that the identified conflict of interest is properly managed. (5 marks)

(b) Explain the steps the auditor should take to confirm the accuracy of the purchases and payables flowcharts and systems notes currently held on file. (5 marks)

(c) In respect of the purchases and payables system for Com Publishing Co:

(i) Identify and explain FIVE deficiencies;

(ii) Recommend a control to address each of these deficiencies; and

(iii) Describe a TEST OF CONTROL the auditor should perform to assess if each of these controls, if implemented, is operating effectively to reduce the identified deficiency.

Note: Prepare your answer using three columns headed Control deficiency, Control recommendation, and Test of control respectively. The total marks will be split equally between each part. (10 marks)

(d) Describe the substantive procedures the auditor should perform to obtain sufficient and appropriate evidence in relation to Com Publishing Co's purchases and other expenses. (5 marks)

Question Two.

Orphaned Children Uganda (OCU) is a non-governmental organization (NGO) whose principal activity is to address the challenges of the growing number of orphaned children in Uganda. OCU's main objective is to ensure that the orphaned children keep in school. OCU pays the school fees, purchases uniform and offers scholastic materials for the beneficiaries.

OCU receives funding from two donors in the United Kingdom. The donors have received reports from a whistleblower claiming that the donations are being misappropriated.

You are an audit senior at DEN DEN & Co and your firm has been auditing OCU for the past three years and showing that the statements portray a true and fair view though without

sufficient evidence. This poses a risk to the firm arising from negligence should these allegations be true.

Your review for the last three years revealed that there was no extensive evaluation of assertions in order to gather sufficient audit evidence to support their opinion and additionally the three years audited reports were being based on audit failures.

Required.

- a) Give your understanding on the terms, true and fair view of financial statements. (5 Marks)
- b) Discuss the assertions that should have been extensively evaluated by DEN DEN & Co upon auditing financial statements of OCU to gather sufficient evidence in support of their opinion for the last three years. (10 Marks)
- c) Explain to the donors of OCU what could have been causing audit failures for the last three year reviewed financial reports. (10 Marks)

Question Three.

You work at Umoja & Co as an auditor and your firm is the auditor of Fabrication Machinery Ltd (FML) for the year ended 31 December 2021. You are the leader of the audit team assigned to audit FML.

FML deals in Fabrication of metal and specializes in making metallic door and window frames, specialized hospital beds and local machinery used for commercial purposes. FML is a medium sized entity with an annual gross turnover of UGX 5 billion.

Required.

- a) Briefly discuss what you would include in an engagement letter to FML and show the importance of an engagement letter before you take the assignment. (7 Marks)
- b) Explain the basic techniques used for collecting audit evidence. (8 Marks)
- c) Explain the meaning of judgmental sampling used in auditing companies like FML by clearly giving its advantages and disadvantages. (10 Marks)

Question Four.

You are a Certified public accountant working with BAL and WTS Co as an auditor. A firm that recently audited the final accounts of Supreme Millers limited (SML) for the year ended 31 December 2021. SML is a maize flour processing Company located in Kicwamba Kasese District. The company has 50 employees with its own fleet of vehicles for marketing and distribution of its products.

During your audit planning meeting, the managing partner pointed out the need to work with SML's internal audit department especially regarding understanding SML's control environment. This is due to the fact that SML has no clear reporting framework and most of the employees have blood relations. This is an incentive to defraud SML and its resource regardless of the errors that may occur in the course of business operations.

Required

Write an email to the managing partner;

a) Discussing the:

- (i) Distinction between errors and fraud that are likely to occur in the operations of SML.

(6 Marks)

- (ii) Matters BAL and WTS Co should consider when screening SML before accepting the audit engagement.

(6 Marks)

b) Examining the:

- (i) Instances that may indicate presence of fraud at SML. **(6 Marks)**

- (ii) Types of audit reports and what qualifies them clearly. **(7 Marks)**

Question Five.

Every organization must have internal control systems that perhaps minimizes the misuse, misappropriation of resources.

As an expert in auditing, discuss the internal control systems adopted by any organization of your choice and clearly show how they help in the prevention of error and fraud in the operations of that given organization. **(25 marks)**

Question Six

- a) Explain the rights of an auditor during the auditing process. (7 Marks)
- b) Discuss the role played by international standards of Auditing (IAS). (8 Marks)
- c) An auditor is supposed to make an opinion using independent judgment upon considering relevant findings to justify his/her opinion. Discuss conditions through which the auditors' independence can be compromised. (10 Marks)

Question Seven

You are an audit senior at PAT & Co., a firm of Certified Public Accountants, and it is your first time to work on one of the firm's long-time clients of over five years, Quick Shipping Company Ltd (QSCL). The main business of QSCL is transportation of all kinds of goods, and the company owns a fleet of truckers/ trailers.

You have been asked to embark on the audit planning for QSCL by Tong Sam, the engagement partner. Mr. Tong has been the engagement partner for the past three audits of QSCL and therefore has excellent knowledge of the client.

He has informed you that he would like his nephew, Tom to be part of the audit team this year. Tom has just completed level 1 of the Certified Public Accountants of Uganda [CPA (U)] course. Mr. Tong has also informed you that he had just shipped his car from Mombasa to Kampala using the services of QSCL and he intends to do the same for his friend, Peace.

In the Pre-audit meeting with the finance director of QSCL, you learnt that the audit team will be given free lunch and transport allowance. The director also stated that the audit fees will be based on a percentage of revenue and trusted that the firm will accept a fixed fee for representing QSCL in a tax dispute with the Uganda Revenue Authority.

Required:

- (a) Explain the ethical threats which may affect the auditors of PAT & Co. (10 marks)
- (b) For each of the threats, explain how it may be mitigated. (5 marks)
- (c) What would be the benefit of having an internal audit department at QSCL. (10 marks)

END OF QUESTION PAPER - GOOD LUCK