

UGANDA MARTYRS UNIVERSITY

NKOZI, LUBAGA AND MASAKA CAMPUSES

FACULTY OF BUSINESS AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

COURSE CODE: AUD 3202

COURSE NAME: AUDITING

EXAMINATIONS 2023/2024

BAM III AND BSC ACC & FIN III

Date: Tuesday 12th December 2023

Time: 3 Hours (9:30am – 12:30pm)

INSTRUCTIONS:

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
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Question One

Green Co grows crops on a large farm according to strict organic principles that prohibits the use of artificial pesticides and fertilizers. The farm has an 'organic certification', which guarantees its products are to be organic. The certification has increased its sales of flour, potatoes and other products, as customers seek to eat more healthily.

Green Co is run by two managers who are the only shareholders. Annual revenue is \$50 million with a net profit of 5%. Both managers have run other businesses in the last 10 years. One business was closed due to suspected tax fraud (although no case was ever brought to court).

Green Co's current auditors provide audit services. Additional assurance on business controls and the preparation of financial statements are provided by a different accountancy firm.

Last year, a neighbouring farm, Black Co started growing genetically modified (GM) crops, the pollen from which blows over Green Co's fields on a regular basis. This is a threat to Green Co's organic status because organic crops must not be contaminated with GM material. Green Co is considering court action against Black Co for loss of income and to stop Black Co growing GM crops.

You are an audit partner in Lime & Co, a 15-partner firm of auditors and business advisors. You have been friends with the managers of Green Co for the last 15 years, advising them on an informal basis. The managers of Green Co have indicated that the audit will be put out to tender next month and have asked your audit firm to tender for the audit and the provision of other professional services.

Required:

- a) Using the information provided, identify and explain the ethical threats that could affect Lime & Co. (10 marks)
- b) Despite not being mandated by law, why should one abide by ethics, which deal with questions of right and wrong conduct? (05 marks)
- c) Explain each of the five fundamental principles of professional ethics that auditors are required to comply with. (10 marks)

Question Two

"It is well accepted in auditing that throughout the conduct of the ordinary audit, it is essential to obtain sufficient and appropriate information from management and to rely heavily on management's judgments. After all, financial statements are management's representations/assertions.

It is extremely difficult, if not impossible for the auditor to evaluate the obsolescence inventory as well as management can in a highly complex business. Similarly, the collectability of accounts receivable and the continued usefulness of machinery and equipment are heavily dependent on management's willingness to provide truthful responses to questions."

- a) Explain the meaning of sufficient and appropriate information. **5 Marks**
- b) State and explain different management representations/assertions you would want to verify in financial statements **10Marks**
- c) Explain different ways you would use to collect sufficient and appropriate information **10Marks**

Question Three

Securing a job as an auditor requires exceptional financial expertise and confidence to navigate the interview process. You have been selected for an interview as an Internal Auditor as recently applied for, prepare your response to the following interview questions:

- a) Explain the different types of internal audit engagements you are familiar with (9 marks)
- b) Explain the purpose/roles of your position in an organization (10 marks)
- c) Discuss how you would carry out an assessment of a company's risk. (6 marks)

Question Four

The requirement for modern auditors to gather papers during their work has grown extremely crucial. Some authorities have rigorously stated it that auditors should document their reasoning on all key matters which demand the exercise of judgment and their judgments thereon. This is plainly mentioned under ISA230: Audit Documentation.

Required:

- a) Audit documentation gives rise to good audit execution, what differentiates Permanent Audit file from Current Audit File in-terms of contents (10 marks)
- b) Explain the significance of audit working papers in the auditing process. (5 marks)
- c) Explain the critical content of audit working papers that facilitate efficient documentation and communication throughout the auditing process. (10 marks)

Question Five

- a) The internal control framework developed by COSO includes five so-called "components" of internal control. Explain each of these five components. (12 marks)
- b) Examine and discuss the potential indicators that may indicate the presence of irregularities and errors in an internal control system. (13 marks)

Question Six

You have been appointed the auditor of ABC Limited, a medium manufacturing company which is quoted on the stock exchange.

- a) Why is it necessary for an auditor to have knowledge of the client before accepting an appointment? (10 marks)
- b) Provide an overview of the function of a letter of engagement and enumerate its essential components (15 marks).

Question Seven

No audit is complete without the issuance of a report and opinion.

Required:

- a) Explain a number of possible Audit Opinions you would issue as carry out audits of different Organizations (12 marks)
- b) What are the basic elements of the Auditor's report? (10 marks)
- c) Examine and evaluate the significance of the "True and Fair View" concept in the context of auditing and assurance engagements. (3 marks)

The End