

**UGANDA MARTYRS UNIVERSITY, NKOZI  
CAMPUS**

**FACULTY OF BUSINESS ADMINISTRATION AND  
MANAGEMENT**

**DEPARTMENT OF ACCOUNTING & FINANCE**

**COURSE: PRINCIPLES OF AUDITING  
BSC (A&F) 2021/22**

**DATE: Thursday, 27<sup>th</sup> JANUARY 2022**

**Time allowed: 9:30am – 12:30pm**

**Instructions to Candidates:**

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Start every question on a new page
- 3) Clearly state the question number & sections attempted
- 4) Answer any **four (4)** questions.

### Question One

You have been asked by the partner in charge of your firm to provide guidance to audit staff about materiality. He believes that if this guidance is provided to audit staff it will allow them to carry out audits more effectively.

Required:

- (a) Provide the definition for the term 'materiality' and explain why the concept is important to auditors. ( 6 marks)
- (b) Explain the importance of the concept of professional independence to the auditors. ( 6 Marks)
- (c)' Name four(4) ways in which the independence of the auditor could be compromised in the course of his duties (6 Marks)
- (d) Why is an audit necessary for a limited liability company? ( 7 Marks)

### Question Two

Audit Planning process allows the audit senior to acquire adequate knowledge about the entity This process ensures an effective control and review of audit work.

Required

- (a) Explain the auditor's planning process when planning for an audit of a new client. ( 8 Marks)
- (b) How does audit planning assist in the conduct of an audit? ( 8 Marks)
- (c)' Explain what should be included in an audit planning memorandum? ( 9 marks)

### Question Three

Internal controls are tools, embedded in the organizational structures and systems, developed and used by management to aid them in achieving the safety and soundness objectives of the organisation.

Required:

- (a) Who is responsible within an organization for the effective operationalisation of the internal controls? (5 Marks)
- (b) What constitutes the control environment in an organisation like UMU? (10 Marks)
- (c) Explain the limitations of internal controls in ensuring that objectives of the Organization are met. (10 Marks)

#### Question Four

With examples where possible, distinguish between the following:

- Accounting and Auditing (9 Marks)
- Internal audit and External audit (9 Marks)
- Engagement letter and Management letter (7 Marks)

#### Question Five

- a) Give an account of the governance principles that are critical to the public sector. (10 marks)
- b) Examine the different approaches of internal audit in public sector giving at least two benefits and limitations for each approach. (15 marks)

#### Question Six

- (a) Explain what is meant by the following terms used in connection with computer auditing.

- i) General controls (2 Marks)
- ii) Application controls (2 Marks)
- iii) Computer assisted audit techniques(CAATs) (2 Marks)

- (b) Describe the essential elements of the planning process when auditing computerized systems. (6 marks)

- (c) Describe four uses of CAATs in audit of an organization. (6 marks)

- (d) Explain the concept of 'auditing around the computer' and discuss why this increases audit risk for the auditor. (7 marks)

END