

UGANDA MARTYRS UNIVERSITY, NKOZI AND LUBAGA
CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE
BSC. ACC & FIN II, BAM III, BREM III SEMESTER TWO
2022/2023

COURSE UNIT: AUDITING/REAL ESTATE AUDITING
PRACTICE & INVESTIGATION

DATE: Friday 19th May 2023

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. Write neatly and show all workings clearly.
3. Start every question on a new page
4. Clearly state the question number & sections attempted.
5. The paper comprises of Section A and B
6. Section A is Compulsory
7. Attempt any three questions of your choice from section B.
8. Use of relevant examples will be credited.

SECTION A

Question One

You are a manager in the audit firm of Ali & Co; and this is your first time you have worked on one of the firm's established clients, Stark Co. The main activity of Stark Co is providing investment advice to individuals regarding saving for retirement, purchase of shares and securities and investing in tax efficient savings schemes. Stark is regulated by the relevant financial services authority.

You have been asked to start the audit planning for Stark Co, by Mr Son, a partner in Ali & Co. Mr Son has been the engagement partner for Stark Co, for the previous nine years and so has excellent knowledge of the client. Mr Son has informed you that he would like his daughter Zoe to be part of the audit team this year; Zoe is currently studying for her first set of fundamentals papers for her ACCA qualification. Mr Son also informs you that Mr Far, the audit senior, received investment advice from Stark Co during the year and intends to do the same next year.

In an initial meeting with the finance director of Stark Co, you learn that the audit team will not be entertained on Stark Co's yacht this year as this could appear to be an attempt to influence the opinion of the audit. Instead, he has arranged a balloon flight costing less than one-tenth of the expense of using the yacht and hopes this will be acceptable. The director also states that the fee for taxation services this year should be based on a percentage of tax saved and trusts that your firm will accept a fixed fee for representing Stark Co in a dispute regarding the amount of sales tax payable to the taxation authorities.

Required:

- (a) Using the information provided, identify and explain the ethical threats that could affect Lime & Co (10 marks)
- (b) For each threat explain how it might be reduced to an acceptable level; (10 marks)
- (c) Explain each of the five fundamental principles of professional ethics that auditors are required to comply with; (10 marks)
- (d) Why is it necessary for an auditor to have knowledge of the client before accepting an appointment? (10 marks)

SECTION B

Question Two

"This has been a wonderful thought in strengthening custody to our resources" commented the finance director, during the inauguration ceremony of the internal audit department of Uganda Martyrs University (UMU). He continued "we have found a need for an internal audit in addition to external audit". He concluded "much as their functions partly overlap those of the external auditors, in part are quite different and I am glad we have got very resourceful custodians at UMU".

Required:

- a) Explain the similarities and differences in the work of internal and external auditors, basing on finance director's remarks in the scenario above. (10 marks)
- b) As an external auditor of UMU, briefly state the grounds on which you would rely on the work of internal auditor. (10 marks)

Question Three

ISA500 states that "The Auditor must plan and perform audit procedures to obtain sufficient and appropriate audit evidence to provide a reasonable basis for his or her opinion"

- a) What do you understand by "sufficient and appropriate" of Audit Evidence? (2 marks)
- b) Explain the factors that influence the judgment of what is sufficient in audit evidence (08 marks)
- c) Explain six evidence gathering techniques that you would use to collect audit evidence (10marks)

Question Four

ISA 210 Agreeing the Terms of Audit Engagements provides guidance on the content of engagement letters and deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management.

Required:

- a) Explain the purpose of letter of engagement and list the important Matters which must be included in such letter (10 marks)
- b) List the matters that should be included within an audit engagement letter (10 marks)

Question Five

The firm of VC & Co. in which you are employed is the external auditor of Company A which is a company that operates a training center providing IT engineers courses & photography courses. The company leased a flat in a commercial building located in Kampala Capital City under an operating lease. The training center promotes their IT engineers courses by providing powerful notebooks for students to use in class. At the same time, photographic equipment is provided to students to use when attending the classes of the photography courses. Recently, fewer and fewer students enroll on the photography courses, the directors consider not to offer those courses in the coming future. The company adopts the revaluation model for all the equipment.

Required:

- a) State and explain the assertions for the auditing of the account balances, additions and disposals of notebooks and photographic equipment (10 Marks).
- b) What are the inherent risks for the auditing of the notebooks and photographic equipment in this audit? (05 Marks)
- c) State and explain the assertions for the auditing of the account balances, additions and disposals of notebooks and photographic equipment (05 Marks)

Question Six

- a) Assume, you are a new employee at the accounting firm Apollo&Apollo, CPAs. Before you are assigned to your first audit, your supervisor tests your knowledge by saying "though auditing is a practical subject, a lot of its concepts, postulates and assertions have evolved overtime and hence a theoretical approach has also been evolving as was presented byMautz and Sharaf in their book, the Philosophy of Auditing identified eight (8) postulates" Thereafter, asked you to explain what you understand by each of the above postulates.How would you go about it? (12 marks)
- b) State what you consider to be the main characteristics of an auditor. (08 marks)

Question Seven

- a) Audits are never complete until an output in form of a report and opinion is issued. Explain a number of possible Audit Opinions you would issue as carry out audits of different Organizations. (08marks)
- b) What are the basic elements of the Auditor's report? (5marks)

c) Write short notes on the following

I. The meaning of “True” and “Fair view” in Auditing and Assurances(2marks)

II. Procedure for verification of Assetswhen carrying out audits (5marks)

Question Eight

- a) As a General Manager, Uganda Martyrs University Staff SACCO, list and explain any threeelements of internal controls that you would institute to conduct business better for the benefit of SACCO Members (8 Marks)
- b) Audit documentation gives rise to good audit execution, what differentiates Permanent Audit file from Current Audit File in-terms of contents (8 marks)
- c) “Arguments have been fronted on who owns audit working papers between the Auditor and the client” With reference to decided court case and International Standards on Auditing, what’s your backed up opinion? (4marks)

THE END