

**UGANDA MARTYRS UNIVERSITY  
NKOZI/LUBAGA CAMPUS**

**FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**DEPARTMENT OF ACCOUNTING & FINANCE**

**SEMESTER TWO 2018/19**

**BSC Acc & Fin III - NKOZI**

**COURSE UNIT: PRINCIPLES OF AUDITING**

**DATE: 2<sup>nd</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: (25 marks)**

“This has been a wonderful thought in strengthening supervision to our resources” commented the finance director during the initiation of the internal audit department of MAT Ltd. 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, they are quite different and I am glad we have got very resourceful custodians at MAT”.

#### **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) Examine the nature of an internal audit. **(5 marks)**
- c) Define the term internal control system and discuss its components **(10 marks)**

### **QUESTION TWO: (25 marks)**

Standard 2200 – Engagement planning requires the internal auditor to plan the audit so that the engagement is performed in an effective manner.

#### **Required:**

- a) Explain why it is important for an auditor to carry out audit planning. **(7 marks)**
- b) Identify the contents of a permanent audit file. **(6 marks)**
- c) Explain the meaning of a current audit file and the information that is required to include therein when undertaking the audit. **(6 marks)**
- d) Clearly examine the advantages and disadvantages of using standardized audit working papers. **(6 marks)**

### **QUESTION THREE: (25 marks)**

As an internal of Ben Phones Limited you’re currently auditing the financial statements of this company which deals in the wholesale and retail of a variety of phones which it obtains directly from local and overseas suppliers. They sell to both large and small retailers. Starting with the financial year now being audited, all transactions have been processed and recorded using computers.

You have got a lot of experience in auditing computerized systems and you have decided that all controls over the computerized system will be tested during the audit of this financial year and that computer audit programs are to be used to test all the accounting records.

#### **Required:**

- a) Discuss the advantages and disadvantages of using computer aided audit programs. **(8 marks)**

- b) Briefly explain the controls you expect to find and would be testing over:
  - (i) Computer operators. **(5 marks)**
  - (ii) Accounting records. **(5 marks)**
- c) Evaluate the types of audit risks that may be encountered by the company while using a computerized information system. **(7 marks)**

**QUESTION FOUR: (25 marks)**

Audit evidence makes an audit report more reliable and reduces audit risk. Accounting is a profession which has characteristics including ethical code and rules of conduct. The purpose of the code of ethics is to promote an ethical culture in the profession of internal auditing. The code is necessary and appropriate for the profession as it is on the trust placed in its objective assurance about risk management, control and governance.

**Required:**

- a) State factors that make audit evidence more reliable and discuss the sources of audit evidence. **(13 marks)**
- b) Identify and describe the professional codes of conduct required of an internal auditor to assist him effectively discharge his duties. **(12 marks)**

**QUESTION FIVE: (25 marks)**

- a) Give an account of the governance principles that are critical to the public sector. **(8 marks)**
- b) Examine the purpose of Public Sector Internal Audit Standards **(5 marks)**
- c) Examine the different approaches of internal audit in public sector giving at least two benefits and limitations for each approach. **(12 marks)**

**QUESTION SIX: (25 marks)**

- a) Discuss the need for the internal auditor to familiarize himself/herself with the client's business before carrying out the audit. **(7 marks)**
- b) Explain the factors that an internal auditor should consider before relying on the work of an expert and examine the considerations to make in hiring an expert. **(6 marks)**
- c) Imagine you're a member of management and you're presented with an internal audit report, what would you look for from that report? **(12 marks)**

END

