

Threat

Safeguard

Mr. Rebi has been the engagement partner for mmh for the previous nine years

Rotation of audit firms and Mr. Rebi should be rotated in his role as audit partner for mmh

There is no rule stopping Mr. Rebi from recommending his son to be part of the engagement team. However, his son may not be independent as he is related to the engagement partner

Coat should not be part of the audit team if his father Mr. Rebi is the engagement partner

Sale, the Auditor
Senior received a
loan from mmL

Loans should not be
accepted so that
Independence is maintained.

Sale should obtain loans
from other financial
Institutions.

Accepting tax return
services based on
% of tax saved
are contingent fees.

Auditors fees should be
based on experience, time
required for the audit.

and this may put
pressure on auditors
to have understated
profitability

Representing mmL
in dispute regarding
Income tax payable

The Auditor firm should
not represent mmL
in courts of law.

Ethical Principles of Professional Accountants and Auditors

- Integrity
- Confidentiality voluntary
- Objectivity
- professional behavior
- professional competence & due care

Auditors are paid salary.

↓
Deduction → fees.

- ✓ Professional fees: travel, accommodation.
- ✓ Out of pocket expenses
- ✓ Premiums.

* Lowballing → is a practice where audit firms charge new clients rates / fees below the market rates.
Self Interest rates.

Obtain audit work:

Evaluation Criteria

* Tendering → Audit fees

→ Experience of the firm

→ firm is local / international

* Direct client requests.

Procedures before Accepting Appointment:

- ✓ Check that you're qualified
- ✓ Availability of resources.

- ✓ Client Screening
- ✓ Obtain permission to communicate with the retiring auditor.

Letter of professional etiquette.

"Opinion Shopping"

Engagement letter: → P & BNS.

↓ refers to the written terms of the engagement.

mgmt letter

Contents of the letter.

- ✓ Objectives & Scope
- ✓ Responsibility of Auditor. → If reduces the expectation gap

Known	Risk	Effect	Recom	mgmt report
Central Bank	high Risk			



- ✓ Responsibility of mgmt.
- ✓ Applicable financial reporting framework
- ✓ Form & content of report. → ?

Reasonable / Non reasonable
Ltd Assurance.

(111)

Audit Planning and Risk Assessment.

- ✓ Audit planning
- ✓ Professional judgement
- ✓ Professional Scepticism
- ✓ Audit risk ———— Risk of non detection risk
- ✓ Business risks
- ✓ ISA 315 -> understanding the entity & its env't
- ✓ materiality -> ISA 300

* Types of ratios

- ④ Profitability
 - Net P margin
 - Gross profit
 - ROCE

- ④ Fraud. ④ Different & Approp
- ④ Risk Assessment procedure

Assertions → Representation
by not included in the F/S.

Professional Skepticism →

refers to the attitude of having a

questioning mind that material
misstatements exist in the F/S.

↓ Fraud or error. Standard procedures

Audit Risk approach / procedural
approach.

↓

Undertake a risk based audit → higher or
more tests to high risk areas and
less on low or low risk areas.

Auditors Liability

- ✓ Sales
- ✓ Cash received
- ✓ Banks
- ✓ Down of Bank

Enron, Worldcom
 Arthur Anderson
 2002.

Corporate Governance

Components of Audit Risk

Audit Risk:

Detection risk

Risk of material misstatement

→



Inherent risk

Control risk

risks

errors are expected.
Inherent risk → that an inherent
in the entity's operations and therefore
outside the entity control.

Control risk → arises from the
failure of the controls to prevent, detect
and correct a material misstatement.

Detection risk → This is a risk that
arises when the audit procedures
performed by the auditor don't detect
material misstatements.

- ✓ Adequate planning
- ✓ Assigning more staff
- ✓ Supervision

✓ Generating appropriate samples

Business risk → is the risk that
can affect the org. from attaining its
objectives.

→ refer to the business as
a whole.

Audit risk → relates to financial
statements.

↓
financial statement risk.

MAY 2024.

↓
Q13, Q11.

An Engagement letter → written
terms of an engagement

X-tries of an audit engagement letter

(Contents of an engagement letter)

- ✓ The objectives and scope of the audit
- ✓ Responsibility of mgmt
- ✓ Responsibility of the Auditors

✓ Audit fees → seniority
→ out of pocket exp.
→ state policy.

✓ The applicable financial reporting framework.

✓ The Audit timetable.

✓ Block of the Internal Audit

→ Setting boundaries as well providing clear responsibilities

→ Conflict resolution

→ It set clear expectations.

→ Es like a contract of the work that will be performed.

Main Issues of Audit Failure:

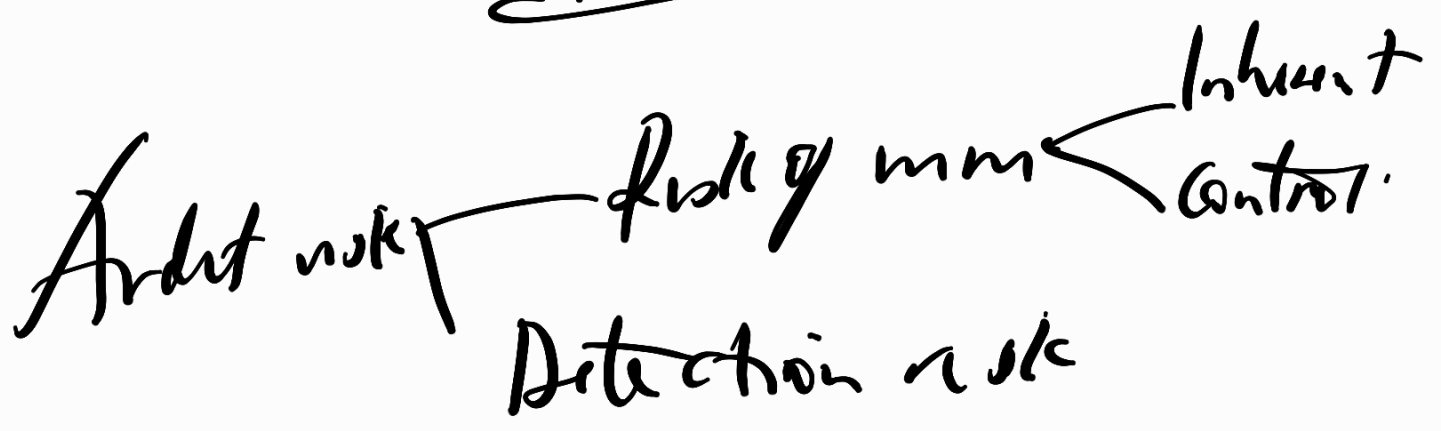
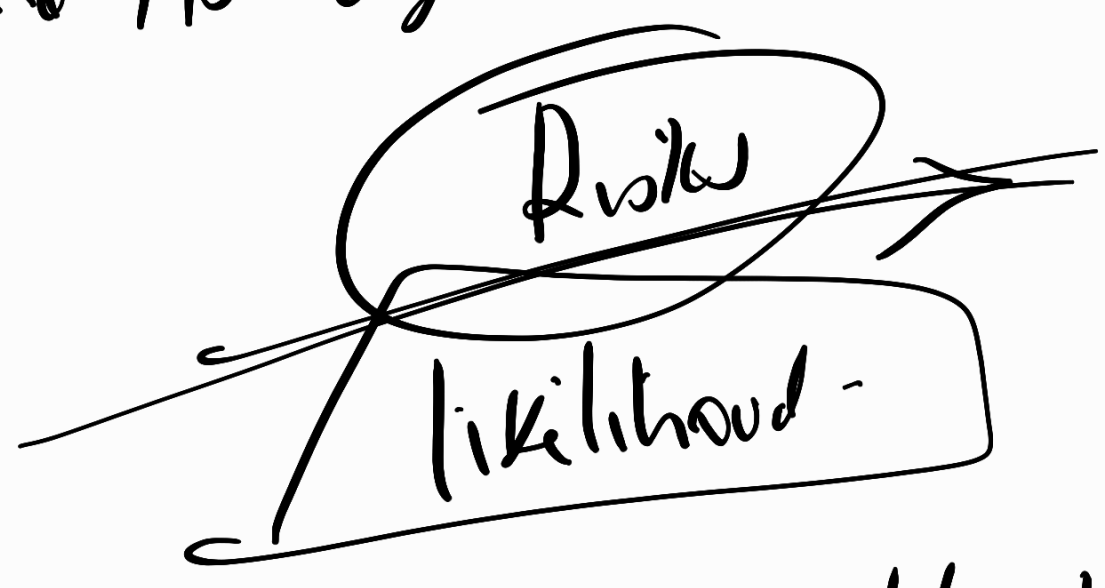
- ✓ Lack of understanding of the entity and its environment.
- ✓ Inadequate audit procedures
- ✓ Mgt Override.
- ✓ Limitation on Scope.

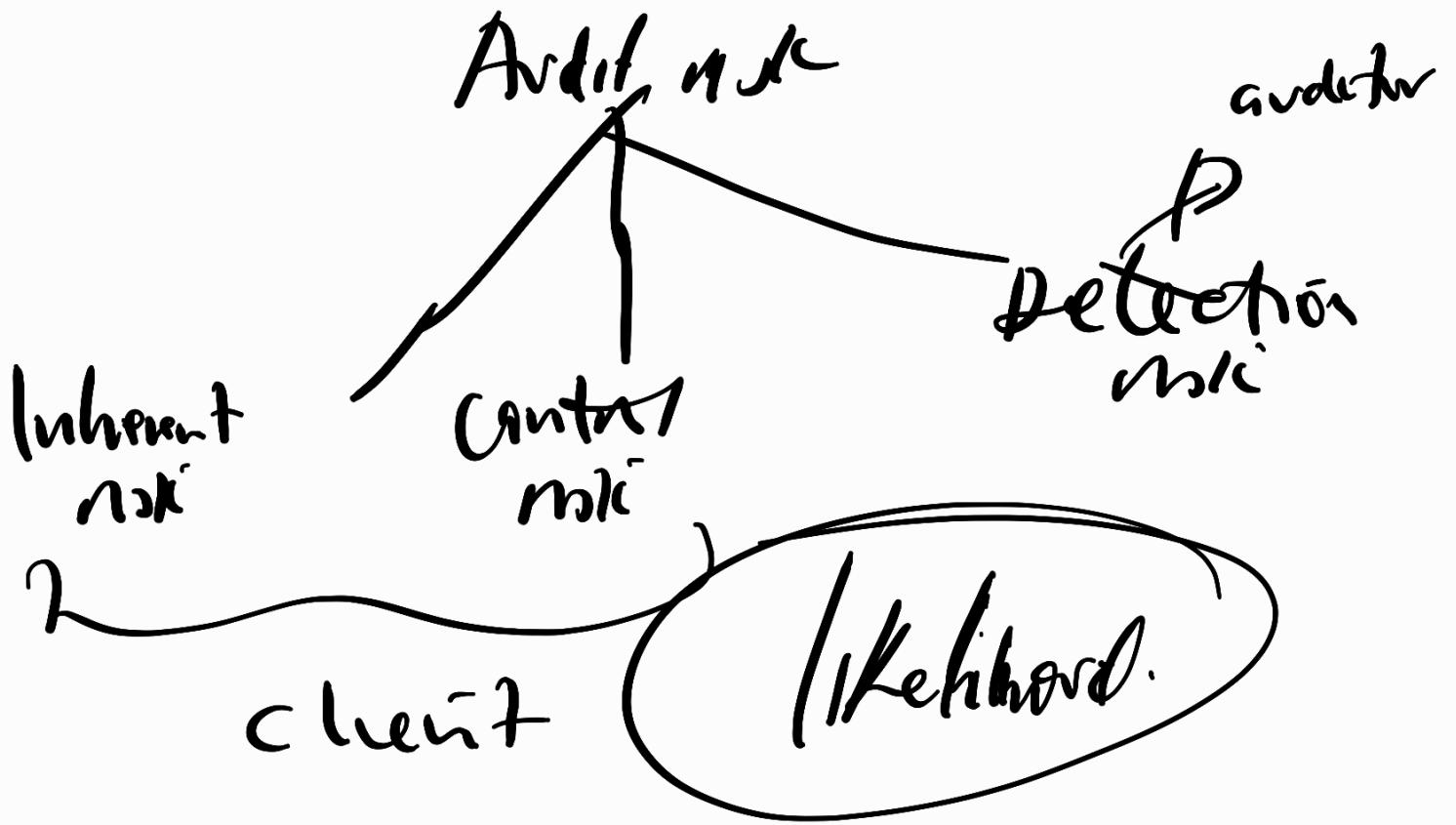
- ✓ Size and Complexity of the entity
- ✓ The nature of audit procedures being performed.
- ✓ The methodology used:
- ✓ Identified risks of material misstatements.
- ✓ Significance of the audit evidence.

"You- role" → First paragraph
Last paragraph.

Business Risk → Audit report
→ financial risk

adversely affect the entity's ability
to achieve its objectives





There are no risks in this case.

→ Are events that can lead to risks

→ Non-compliance to UMTA guidelines.

→ High staff turnover.

effect → adverse effect

Going Concern Issue.

Limited funding

Political Unrest.

Unfilled Orders.

→ reputation risk.

Competition

✓ How much of the org. → D. making.

✓ Discussion with the audit Committee & top mgmt.

✓ Communication with Internal auditors and per. external auditors.

✓ Analyze of the industry the bus. operates in.

Permanent FTE employees:

- ✓ Employee's names and addresses
- ✓ Employment contract.
- ✓ Job description
- ✓ Appraisal forms.
- ✓ Disciplinary action reports.
- ✓ Education and employment history.
- ✓ Employee benefits → payroll.

✓ Info on Training

Emphasis of matter paragraph

Other matter paragraph.

✓ Non-compliance to laws and regulations

✓ If there is need to amend the audit report in cases of subsequent

events → IAS 10 $\left\{ \begin{array}{l} \text{Adjusting events} \\ \text{Non-adjusting} \\ \text{events} \end{array} \right.$

- ✓ The auditor is unable to withdraw from the audit process because of the Ltd scope of work.
- ✓ Adoption of new Accounting Standard.

KMA → Draw attention
OMP to the Reader

Aug 2015 QN 3

May 2024 QN 4.

Internal Audit.

- ✓ Factors considered by the external auditors before relying on the work of Internal Auditor.
- ✓ Factors considered in designing an internal audit department.
- ✓ Advantages / disadvantages of outsourcing the I.A. department.
- ✓ Types of Audits done by I.A.

Internal audit → Risk mgt
→ Corporate Governance
→ Internal control.

→ Audit committee

⇒ B.O.D.

→ Code of ethics.

Work of I.A → Scope.

→ Functions/roles of I.A.

Type of Audits carried by Internal Audit department.

* Value for money audit.

* Compliance audit

* Surprise audits

2 T Sales
purchases

* Investigate audits.

* Routine audits

(ii) Major areas of work done by
Internal Audit which External
Auditors find relevant.

→ Evaluate Internal control.

→ Risk Assessment and mgmt.

→ Compliance with law and
regulations

→ Examination of financial info.

Internal auditors administratively answer to mgmt and functionally to the audit committee but External auditors → shareholders.

Scope of work. E-A → Guided by ISAs.
I.A → determined by mgmt.

Institute of Internal Auditors
'IIA' (CIA)

Listed Companies, financial Institutions and public sector Entities.

Reliance on the work of the I.A.

- ✓ Competence of I.A.
- ✓ Objectivity & Independence.
- ✓ Quality of Internal audit reports
- ✓ Sufficiency of audit evidence
- ✓ Level of resources

Factors Considered in designing an Internal audit department

- ✓ Size of the firm
- ✓ Resource availability
- ✓ Dynamic businesses. → D in I.T.
- ✓ Competition

- ✓ Regulatory requirement.
- ✓ Evolution of I.T.
- ✓ Conducting value for money audit
- ✓ " Compliance audit
- ✓ provide oversight and advice
- ✓ Assess controls.
- ✓ Review T. It's
- ✓ monitor compliance
- ✓ Review processes & procedures

Performance related Audits

- ✓ Systems → A systems oriented approach.
- ✓ Results → A result oriented approach.
- ✓ Corrective action → Analyzing variations

Detail	Agreed upon procedures	Compilation
Purpose	Obtain info about a specific subject matter	Present financial information in the form of FLs
Level of Assurance	NO Assurance	NO assurance
Report	Report on factual findings	Compilation report
procedures	procedures are agreed upon by all parties	Apply Accounting Principle

An Agreed upon procedure is one in which a practitioner is engaged by a client to issue a report based on specific procedures performed on a subject matter.

Compilation engagement is an engagement where a company engages an outside accountant to prepare and present financial statements.

Considerations

- ✓ The practitioner expects to obtain all necessary info
 - ✓ The procedures agreed upon are clear and not vague. (understanding)
 - ✓ Independence.
 - ✓ Ethical requirements
-

Non-executive directors

- CEO & Board chairman

- Rotation of directors

CAATS - Types of CAATS



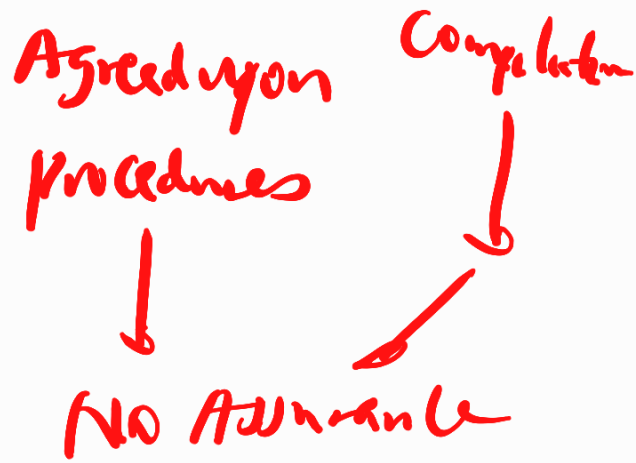
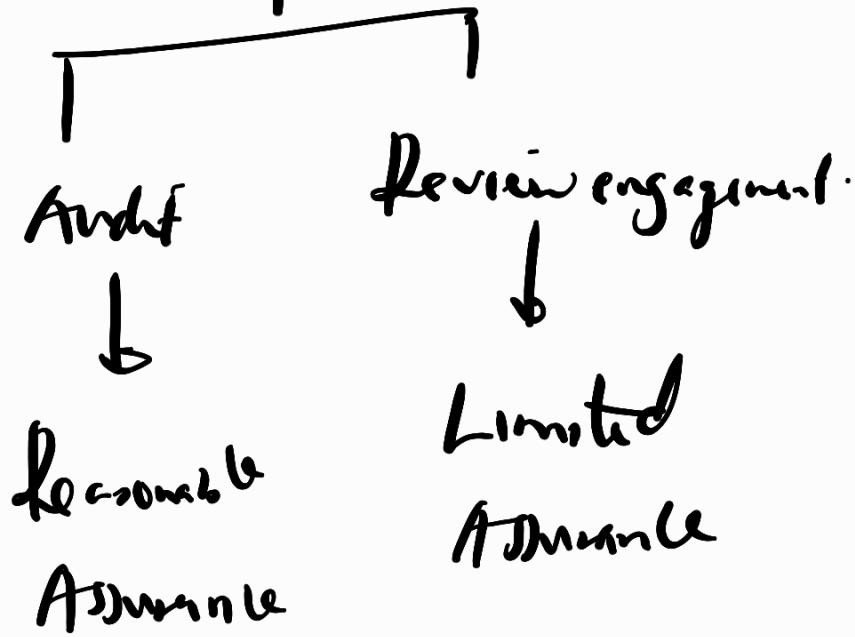
Audit around the computer

- Audit thru the computer

Engagement

Assurance
Engagement

Non Assurance
Engagement.



Type of ratio

✓ Profitability → Gross margin.

✓ Liquidity → Acid test quick
Current ratio ratio

✓ Solvency

✓ Efficiency

✓ Interest ratios

Introduction to Audit Theory:

✓ Audit → Independent

with the view of expressing an opinion.

✓ Opinions.

Types of Audits.

- ✓ Statutory audit
- ✓ Non-Statutory
- ✓ External Audit
- ✓ Internal Audit
- ✓ public sector Audit
- ✓ value for money audit

Statutory

- Financial Inst.
- public sector
- Listed Inst.

- ✓ Compliance audit
- ✓ etc.
- ✓ Forensic audit "CFE"

Elements of an Assurance engagement

- The three party relationship
- Subject matter
 - Responsibility party
 - practitioner
 - Intended user.
- Suitable criteria
 - Quantity
 - Quality
- Sufficient & Appropriate evidence
- Written Assurance report

Benefits of Audit.

- ✓ Improves Compliance and regulation.
- ✓ Provides reasonable assurance.
- ✓ Detection of fraud & errors
- ✓ Improve Operational efficiency
- ✓ Improve on the Stewardship function.
- ✓ etc

100%

95%

Limitations of an Audit.

- ✓ Sampling error.
- ✓ Limited scope. → Scope.

✓ Auditors use judgements

✓ Cost.

✓ Time. → historical financial data.

✓ Focus on past performance.

✓ Procedures before appointment.

Auditor's Liability

- ✓ Qualified to act as auditor
- ✓ Adhere to ethical requirements
- ✓ Resources.

Enron Scandal - 2002.

Arthur Anderson.

Legal, Regulatory and Ethical
Environment.

In Uganda, audits are regulated by

✓ National law → Audit Act 2008

FIA;

Companies Act
2012.

Acc Act 2013.

✓ ICPAU.

✓ ISAs.

✓ IAS, & IFRS.

✓ Code of ethics .

ISA 200 → Overall objectives of the Independent auditor and the Conduct of an Audit in Accordance with ISA:

✓ To obtain reasonable assurance on whether the Fb are free from material misstatements.

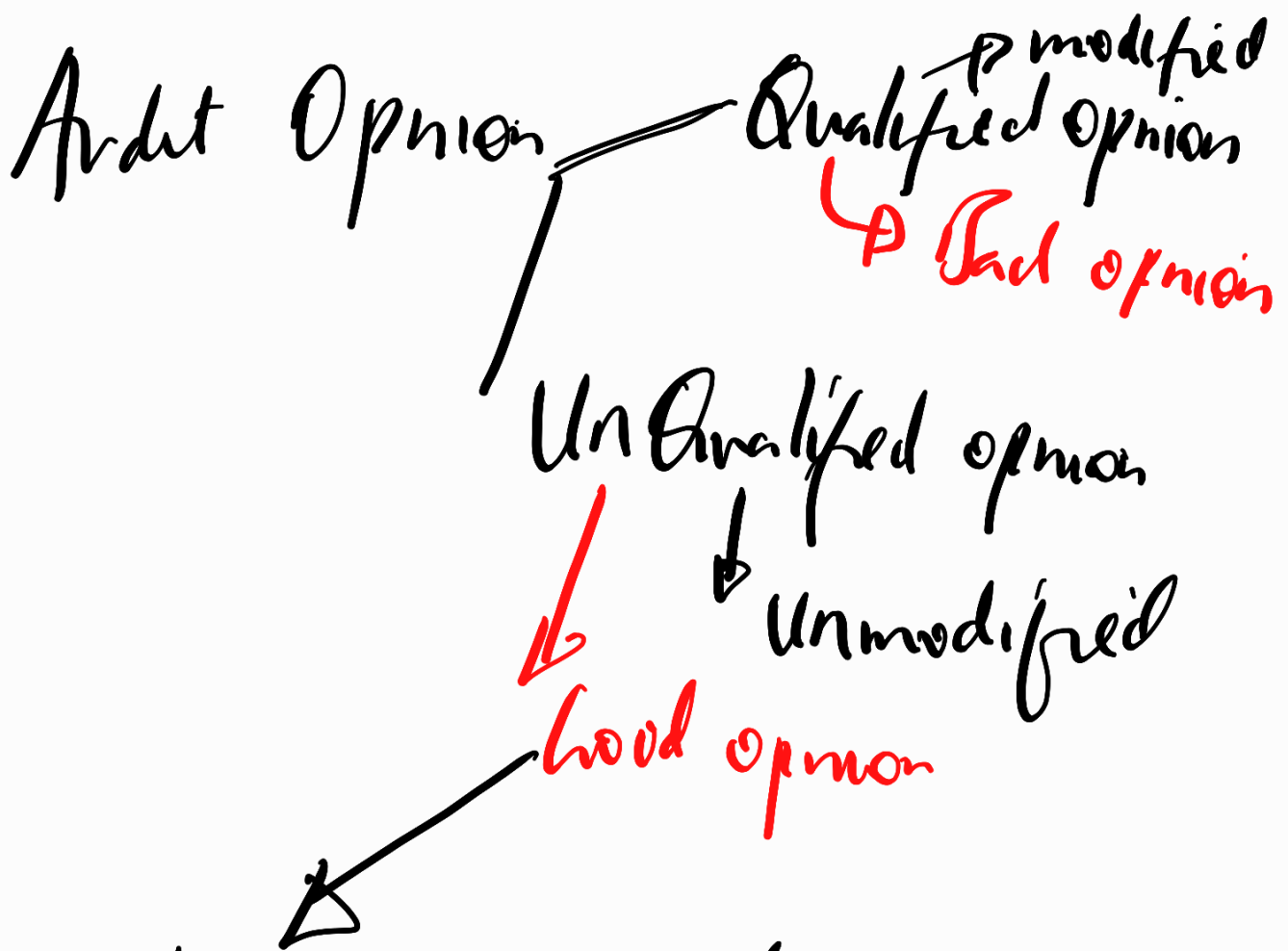
✓ Report the audit findings on the Fb. → ISA.

'True' → is factual and that there are no errors:

→ Correctly transferred from the AIC records to Fb's

→ Compiles with the diff requirements

Fair → Unbiased and understood by users.



- have not detected any mm in the fls.

→ Gathered Sufficient & Appropriate audit evidence to base their opinion.

∴ That the fls as a whole are free from material misstatements.

modified opinion → The auditor will conclude that the Fb contains material misstatements.
∴ Unable to gather sufficient and appropriate evidence.

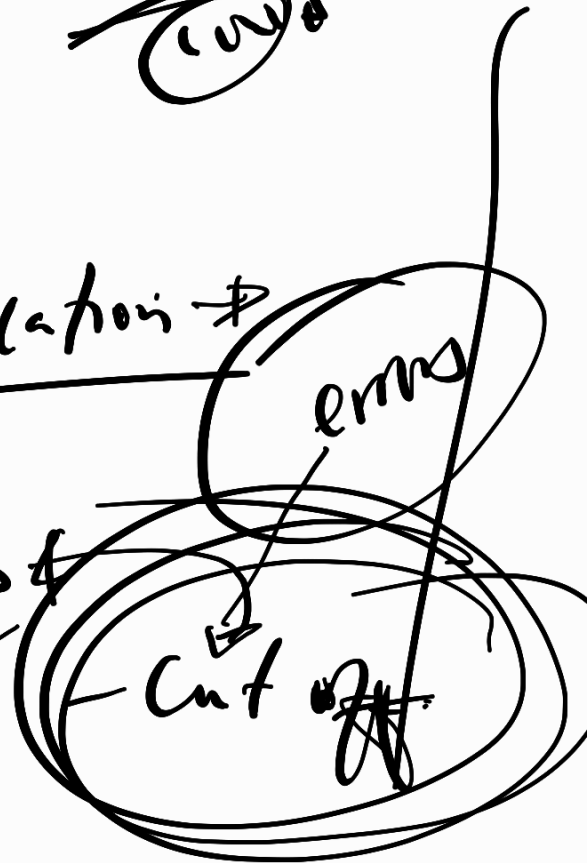
Appointment

10,000
~~5,000~~
~~(2,000)~~

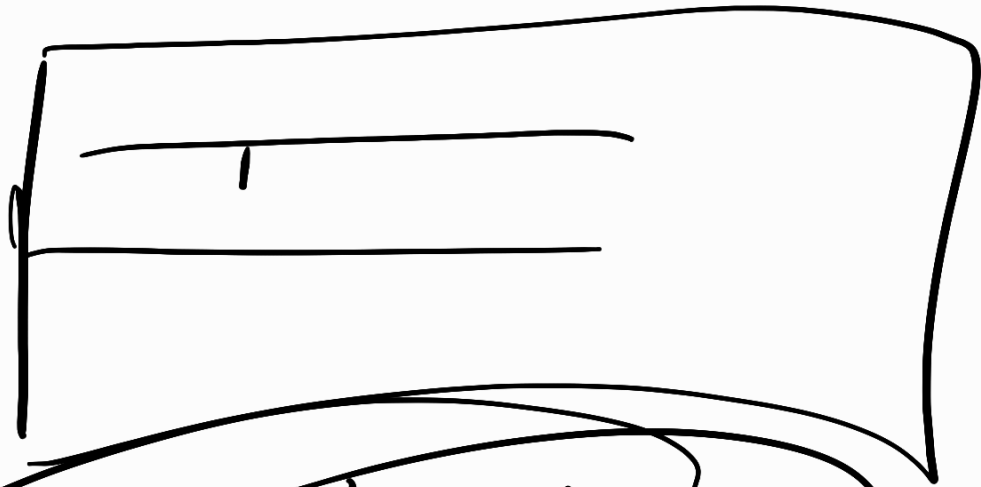
Off balancing

Attention on translation →

- Occurrence ✓
- Completeness ✓
- Classification ✓
- Accuracy ✓



* Related Party transaction



Circumvention letter

Q con??

professional
Liability

Appointment of Auditor

- ✓ Shareholders of the Co! (Aim)
- ✓ Directors
- ✓ Registrar of Companies