

PRINCIPLES OF AUDITING

PAPER 12

OVERALL AIM

To equip the learner with skills of audit planning, execution, finalisation and facilitation.

LEARNING OUTCOMES

On completion of this course, the learner should be able to:

	Learning outcomes	K	C	A	An	S	E
1.	Describe the need for and nature of auditing		✓				
2.	Describe the legal, regulatory and ethical environments within which audits are performed		✓				
3.	Describe the principles and procedures of auditing		✓				
4.	Explain how audit work is documented	✓					
5.	Demonstrate an understanding of internal controls		✓				
6.	Describe how computer-assisted audit techniques are applied		✓				
7.	Discuss the risks of auditing in a computerised environment		✓				
8.	Discuss the role of internal auditing		✓				
9.	Demonstrate an understanding of the conduct and finalisation of an audit		✓				

LEVEL OF ASSESSMENT

The examination will test the learner's ability to plan, execute and/ or facilitate an audit.

EXAMINATIONS STRUCTURE

There will be a three-hour examination comprising six questions of 20 marks each, of which the candidate will be required to attempt any five.

DETAILED SYLLABUS

A INTRODUCTION

1. Meaning of auditing and an audit
2. Auditing versus accounting
3. History and changing role of auditing
4. Purpose/ objectives of an audit
5. The information gap and stewardship
6. Auditing postulates
7. Qualities of an auditor and auditor's independence
8. Audit evidence, materiality, true and fair view and disclosure of accounting policies
9. Statutory, government, private audits; internal audits and other assurance assignments, such as forensic audits, value for money audits and audits relating to environmental and social issues
10. Advantages and disadvantages of auditing

B LEGAL, REGULATORY AND ETHICAL ENVIRONMENTS

1. Regulation and authorisation of auditors:
 - (a) Role of Institute of Certified Public Accountants of Uganda (ICPAU)
 - (b) Rules governing auditors
 - (c) Reasons and mechanisms for the regulation of auditors
2. Appointment and rights and duties of auditors; resignation and dismissal of auditors

3. Auditing standards and guidelines:
 - (a) The standard setting process of the IAASB³; applicability of International Standards on Auditing (ISAs)
 - (b) Auditing guidelines issued by ICPAU
 - (c) Audit failure
4. Ethical requirements:
 - (a) Fundamental principles of professional ethics, including threats to the Principles and safeguards against the threats and importance of the Principles
 - (b) Auditors' responsibility with regard to independence, conflict of interest and confidentiality
 - (c) Provisions of ICPAU Code of Ethics
5. Auditor's liability:
 - (a) Liability that may arise due to negligence; liability under private and statutory audits; criminal liability under the Companies Act
 - (b) Minimisation of liability
 - (c) Reference to decided cases including the Caparo, the Al-Saudi Banque, London Oil Storage, Kingston Cotton Mill Ltd, Hedley Byrne cases
6. Regulatory environment for statutory audits, including the requirements of the:
 - (a) Accountants Act, 2013
 - (b) Companies Act, 2012
 - (c) Insurance Act
 - (d) Financial Institutions Act

C CONDUCT OF AN AUDIT

1. Audit engagement:
 - (a) Procedures for obtaining new audit work

³ IAASB is the International Auditing and Assurance Standards Board

- (b) The tendering process, including the risks involved
 - (c) Accepting new audit engagements:
 - (i) Ethical, legal, practical, risk considerations
 - (ii) Procedures for accepting new audit work
 - (iii) Engagement letter, including its importance, contents, format and preparation
2. Objective of and procedures for undertaking an audit of financial statements; influences on the conduct of an audit and the risk-based approach to auditing
3. Planning and risk assessment:
- (a) Audit planning:
 - (i) Need for planning and the planning process
 - (ii) Overall audit strategy and audit plan and the relationship between them
 - (iii) Development and documentation of an audit plan
 - (b) Professional judgment and materiality
 - (c) Risk assessment:
 - (i) Audit risks at the financial statement and assertion levels
 - (ii) Auditor's response to identified risks
 - (iii) Determination of materiality levels
 - (iv) Identification and assessment of risk of material misstatements
 - (v) Assessment of risks due to fraud; effect of fraud and material misstatements on audit strategy and work to be done
 - (d) Understanding the entity and its environment:
 - (i) Application of preliminary analytical procedures including the use of ratios
 - (ii) Interim auditing, including its effect on the final audit
 - (e) Audit documentation

D INTERNAL CONTROLS

1. Internal control systems:
 - (a) Control environment, control risk and tests of control
 - (b) Elements of an internal control system
 - (c) Assessment of internal control system
 - (d) Importance and limitations of internal control systems
 - (e) Management's responsibility for internal controls
 - (f) Importance of internal controls to auditors
 - (g) Internal control procedures and activities
 - (h) Understanding of internal control activities by the auditor
 - (i) Internal controls over sales revenue and accounts receivable; purchases and accounts payable; inventory; revenue and capital expenditure; payroll; cash and bank
2. Audit of internal control systems
3. Compliance tests:
 - (a) Tests of control versus substantive procedures
 - (b) Tests of control suitable for inclusion in audit working papers
 - (c) Weaknesses in internal control system
4. Risk assessment:
 - (a) Management's risk assessment process with reference to internal control components
 - (b) Limitations of internal control components in the context of fraud and error
 - (c) Reporting of internal control weaknesses and recommendations to overcome them
5. Internal controls relating to financial reporting

E AUDIT EXECUTION

1. Audit evidence and sampling
2. Analytical procedures
3. External confirmations
4. Audit procedures:
 - (a) Income statement assertions
 - (b) Matters relating to recognition of revenue and expenses and procedures for verifying revenue and expenditure
 - (c) Audit evidence in respect of the audit of income statement items
 - (d) Payroll audit
5. Balance sheet audit:
 - (a) Assertions
 - (b) Audit of balance sheet items; audit evidence in respect of the audit of balance sheet items and application of analytical procedures
 - (c) Post balance sheet review and its importance to an audit
 - (d) Review of events after the reporting period
6. International Standard on Auditing (ISA) 700, The Independent Auditor's Report on a Complete set of General Purpose Financial Statements:
 - (a) Key definitions
 - (b) Use of audit evidence to form an opinion and types of opinions
 - (c) Evaluation of external confirmations
 - (d) Format of auditor's report
 - (e) Modification to the auditor's opinion and circumstances when it is required; form and content of the auditor's report when the opinion is modified

- (f) Emphasis of matter paragraph and other matter paragraphs

F AUDIT FINALISATION

1. Review of audit files and evaluation of misstatements
2. Subsequent events review
3. Going concern review
4. Review of management representations obtained
5. Final analytical reviews
6. Audit firm's self-review of continued independence
7. Second partner review

G. AUDITING IN AN INFORMATION TECHNOLOGY (IT) ENVIRONMENT

1. Benefits and drawbacks of computerised accounting systems
2. Computer-aided/ assisted audit techniques (CAATs) and auditing around/ through the computer
3. Risks and challenges of auditing in an IT environment
4. Application and general IT controls
5. Key aspects of computer auditing

H. INTERNAL AUDITING

1. Role of internal auditing, including the use of the Internal Professional Practices Framework
2. External versus internal auditing
3. Performing an internal audit assignment
4. Developments in internal auditing:
 - (a) Nature and purpose of internal audit assignments including value for money, information technology, investigation

- (b) Audit of organisational operations (procurement, marketing, treasury and human resource management)
- (c) Outsourcing the internal audit function

REFERENCES

1. ICPAU, Auditing, Ethics & Assurance, Kampala
2. Institute of Certified Public Accountants of Uganda, 1997. Code of Ethics
3. International Auditing and Assurance Standards Board, 2020. Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, New York, USA.
4. Alan M & John T., 2012. Auditing, 10th ed, Andover: Cengage Learning Higher Education.
9. International Federation of Accountants, 2021. The International Code of Ethics for Professional Accountants, New York,