

AUDITING AND PROFESSIONAL ETHICS AND VALUES - PAPER 12

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Auditing and Other Assurance Services - Paper 17



Auditing and Professional Ethics and Values – Paper 12

OVERALL AIM

To enable the learner understand procedures involved in planning and executing audit assignments as well as developing insights into professional values, ethics and attitudes.

LEARNING OUTCOMES

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

1. Define auditing
2. Explain the need for and the nature of auditing
3. Describe the legal, regulatory and ethical environment within which audits are performed in Uganda
4. Explain the principles and procedures of auditing
5. Explain how audit work is documented to provide sufficient appropriate audit evidence
6. Explain the design and testing of internal controls
7. Describe risks of auditing in an information technology environment and the use of computer-assisted audit techniques
8. Explain the role of internal auditing
9. Describe the performance of internal audit tasks
10. Explain ethics in business and society
11. Demonstrate an understanding of public interests and fundamental ethical principles
12. Demonstrate an understanding of ethical standards of an accountant
13. Discuss ethical issues that an accountant needs to be mindful of



14. Explain corporate governance issues
15. Evaluate the relationship between ethics and corporate governance
16. Apply professional ethics, values and attitudes to work assignments
17. Identifying business opportunities and developing them into viable businesses
18. Explain the challenges facing entrepreneurs and how to overcome them

LEVEL OF ASSESSMENT

The examination will be focused mainly on knowledge, application and analysis of the principles acquired in auditing and professional ethics and values.

EXAMINATIONS STRUCTURE

There will be a three hour examination made up sections A B and C. Section A will comprise of one compulsory question of 30 marks. Section B will comprise of four questions of 20 marks each of which the candidate will be required to attempt any three. Section C will comprise of two questions of 10 marks each, of which the candidate will be required to attempt one.

DETAILED SYLLABUS

PART 1 – AUDIT THEORY

A. INTRODUCTION

1. Auditing:
 - (a) Meaning
 - (b) Purpose/ objectives
 - (c) Development
 - (d) Auditing versus accounting
2. The changing role of auditing:
 - (a) Ways in which audit objectives have changed over the years
 - (b) Reasons for changes in audit objectives over the years
3. The information gap and stewardship:
 - (a) The concepts of accountability, stewardship and agency
 - (b) Responsibility over the financial statements of an entity
4. Auditing postulates
5. Concepts of auditing:
 - (a) Auditor's independence
 - (b) Audit evidence
 - (c) Materiality



- (d) True and fair
 - (e) Disclosure of accounting policies
6. Qualities of an auditor
7. Types of audits:
- (a) Statutory, government, private
 - (b) Internal audits
 - (c) Other assurance assignments:
 - (i) Forensic
 - (ii) Value for money
 - (iii) Audits relating to environmental and social issues
 - (d) Advantages and disadvantages of an audit

B. LEGAL, REGULATORY AND ETHICAL ENVIRONMENT

1. Regulation and authorisation of auditors:
- (a) The roles and responsibilities of ICPAU
 - (b) Rules governing registered and practising auditors
 - (c) Reasons and mechanisms for the regulation of auditors
2. Appointment, rights and duties of company auditors:
- (a) Qualification for appointment as company auditors
 - (b) Ways in which auditors may be appointed
 - (c) Rights and duties of an auditor
 - (d) Regulations governing the rights and duties of auditors
3. Resignation and dismissal of auditors:
- (a) Circumstances under which an auditor may resign their appointment
 - (b) Statutory regulations governing the rotation, removal and resignation of auditors
4. Auditing standards and guidelines:
- (a) The regulatory environment within which statutory audits take place
 - (b) The importance, authority and applicability of International Standards on Auditing (ISAs)
 - (c) The importance of auditing guidelines issued by ICPAU
5. Ethical requirements:
- (a) The fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour
 - (b) Safeguards against the threats to the fundamental principles



- (c) Importance of having the fundamental ethical principles
 - (d) Responsibility of auditors with regard to their independence, conflicts of interest and confidentiality
 - (e) Sources of, and enforcement mechanisms associated with, ICPAU's code of ethics
6. Auditor's liability:
- (a) Negligence: liability that may arise due to negligence
 - (b) Liability under private and statutory audits
 - (c) Criminal liability under the Companies Act
 - (d) Minimisation of liabilities
 - (e) Reference to be made to decided cases including the Caparo, the Al-Saudi Banque, London Oil Storage, Kingston Cotton Mill Ltd, Hedley Byrne cases
7. Requirements of:
- (a) Accountants Act
 - (b) The Companies Act
 - (c) Insurance Act
 - (d) Financial Institutions Act

C. AUDIT PLANNING AND RISK ASSESSMENT

1. Audit engagements:
- (a) Procedures of obtaining new audit work
 - (b) Risks associated with the tendering process
 - (c) Accepting new audit engagements:
 - (i) The ethical, legal, practical and risk related issues to consider
 - (ii) Procedures auditors should follow when accepting new audit work
 - (iii) Importance, contents and format of an engagement letter
2. Audit objectives:
- (a) Objective of an audit of financial statements
 - (b) Procedures required in undertaking an audit of financial statements
 - (c) Influences on the conduct of an audit
 - (d) Risk-based approach
3. Planning and risk assessment
- (a) Audit planning:
 - (i) Need for planning an audit
 - (ii) Contents of the overall audit strategy and audit plan



- (iii) Relationship between the overall audit strategy and the audit plan
- (iv) Development and documentation of an audit plan
- (v) The planning process
- (b) Professional judgment and materiality:
 - (i) Importance of professional skepticism
 - (ii) The role of professional judgement
 - (iii) Identification of potential misstatements
 - (iv) Materiality and its importance
- (c) Risk assessment:
 - (i) Meaning of audit risk
 - (ii) Audit risks at the financial statement and assertion levels
 - (iii) Auditor's response to identified risks
 - (iv) Determination of materiality levels from financial information
 - (v) Identification and assessment of risk of material misstatements
 - (vi) Assessment of risks due to fraud
 - (vii) Effect of fraud and material misstatements on audit strategy and work to be done
- (d) Understanding the entity and its environment:
 - (i) Obtaining an initial understanding of the entity and its environment
 - (ii) Application of preliminary analytical procedures
 - (iii) Ratios used in analytical procedures
 - (iv) Interim audits:
 - Purpose
 - Procedures
 - Effect on the final audit
- (e) Audit documentation:
 - (i) Nature and purpose
 - (ii) Form, content and extent
 - (iii) Contents of working papers and supporting documents
 - (iv) Procedures of ensuring the safety and retention of working papers and other audit documents
 - (v) Current and permanent files

D. INTERNAL CONTROLS

1. Internal control systems:
 - (a) Meaning:
 - (i) Control environment
 - (ii) Control risks



- (iii) Tests of control
 - (b) Elements of an internal control system
 - (c) Assessment the internal control systems, types and policies of a given organisation
 - (d) Importance and limitations of an internal control system
 - (e) Responsibility of management in designing and implementing an internal control system
 - (f) Internal control procedures and control activities
 - (g) Need for an auditor to obtain an understanding of internal control activities relevant to the audit
 - (h) Internal controls over:
 - (i) Sales revenue
 - (ii) Purchases
 - (iii) Inventory
 - (iv) Revenue and capital expenditures
 - (v) Payroll
 - (vi) Cash and bank
2. Audit of internal control systems:
- (a) Control objectives, procedures and tests of control in relation to the different systems of an organisation
 - (b) Techniques of evaluating an internal control system
 - (c) Modification of audit strategy and plan following the results of tests of control
3. Compliance tests:
- (a) Tests of control versus substantive procedures
 - (b) Importance of internal controls to auditors
 - (c) Tests of control suitable for inclusion in audit working papers
 - (d) Weaknesses in internal control systems:
 - (i) Identification
 - (ii) Limitation of extent of reliance on internal control systems by the auditor
4. The effects on 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

E. AUDITING IN AN INFORMATION TECHNOLOGY (IT) ENVIRONMENT

- (a) Risks and challenges of auditing in an IT environment

- (b) Application controls and general IT controls
- (c) Use of computer-assisted audit techniques
- (d) Key aspects of computer auditing

F. AUDIT EVIDENCE AND SAMPLING

1. Audit sampling:
 - (a) Considerations and process of designing audit samples
 - (b) Determination of sample sizes and selection of items for sampling; bases/ approaches to selecting samples (statistical, non- statistical)
 - (c) Circumstances when audit sampling is not appropriate
 - (d) Sampling risk
2. Audit evidence:
 - (a) Types
 - (b) Sources
 - (c) Techniques of obtaining audit evidence
 - (d) Sufficiency and appropriateness
 - (e) Reliability
 - (f) Limitations on the quality and quantity
 - (g) Consistency of audit evidence:
 - (i) Meaning and the usefulness
 - (ii) Need for consistency of audit evidence
 - (iii) Procedures used in obtaining consistent audit evidence
 - (h) Procedures/ methods/ techniques of obtaining evidence
3. Analytical procedures:
 - (a) Meaning
 - (b) Use of substantive analytical procedures in an audit
 - (c) How results of analytical procedures are investigated
4. External confirmations:
 - (a) Importance of external confirmation procedures
 - (b) How external confirmations are performed
 - (c) Evaluation of external confirmations

G. AUDIT PROCEDURES

1. Statement of profit or loss and other comprehensive income audit
 - (a) The financial statements assertions:
 - (i) Occurrence



- (ii) Completeness
 - (iii) Accuracy
 - (iv) Cut-off
 - (v) Classification
- (b) Matters relating to revenue and expenses recognition:
- (i) Materiality
 - (ii) Risk
 - (iii) Relevant accounting standards
 - (iv) Audit evidence
- (c) Procedures for verifying revenue and expenditure
- (d) Audit evidence in respect of the audit of income statement items
- (e) The audit of a payroll
2. Balance sheet/ statement of financial position audit:
- (a) The financial statements assertions:
- (i) Existence
 - (ii) Rights and obligations
 - (iii) Completeness
 - (iv) Valuation and allocation
- (b) Identification of balance sheet items and the respective implications in an audit report
- (c) Factors in the timing of the audit of each item in a balance sheet
- (d) Audit evidence in respect of the audit of balance sheet items
- (e) Post balance sheet review and its importance in an audit
- (f) Review of events after the reporting period
- (g) Analytical procedures in auditing statement of financial position items
3. Audit opinion on financial statements:
- (a) Use of audit evidence to form an opinion
 - (b) Types of opinions
 - (c) Evaluation of external confirmations

H. INTERNAL AUDIT

1. Role of internal auditing:
- (a) Scope
 - (b) Limitations

- (c) Role of an internal auditor in the management of an organisation
 - (d) Use of the internal professional practices framework in internal auditing
2. External versus internal auditing:
- (a) Responsibilities in the detection and prevention of fraud and error
 - (b) Roles regarding planning and collection of audit evidence
 - (c) Internal and external auditor's reports
3. Performing an Internal Audit Assignment:
- (a) Nature of internal audit work
 - (b) Planning internal audit assignments
 - (c) Conducting an internal audit assignment
 - (d) Communication of the results of internal audit assignments
 - (e) The format and content of audit review reports
 - (f) Recommendations to management and those charged with governance
4. Developments in internal auditing:
- (a) Nature and purpose of internal audit assignments including value for money, information technology, investigation
 - (b) Operational internal audit assignments (procurement, marketing, treasury and human resources management)
 - (c) Advantages and disadvantages of outsourcing the internal audit function

PART II - PROFESSIONAL ETHICS AND VALUES

A. INTRODUCTION

1. Meaning of 'ethics' and 'values'
2. Nature of ethics
3. Philosophical versus professional approaches to ethics
4. Ethical objectives of an organisation and the accountancy profession

B. WORKPLACE ETHICS

1. Meaning
2. Ethical behaviour at work:
 - (a) Individual standards and values
 - (b) Manager's and co-workers' influence
 - (c) Codes of ethics and compliance requirements



- (d) Discrimination
- (e) Harassment
- 3. Importance of ethical behaviour at the workplace
- 4. Management of ethical behaviour at the workplace

C. ETHICS IN BUSINESS

- 1. Ethical principles in businesses
- 2. Nature, purpose of ethics and morals for organisational interests
- 3. Sources of ethical standards:
 - (a) The Utilitarian approach
 - (b) The rights approach (the deontological approach)
 - (c) The fairness of justice approach
 - (d) The common good approach
 - (e) The virtue approach
- 4. Types of business ethical issues
- 5. Enforcement of corporate policy and functional area ethics
- 6. Areas covered by corporate codes of ethics
- 7. Concept of ethical dilemma in businesses:
 - (a) Business relationships
 - (b) Conflicts of interest
 - (c) Fairness and honesty
 - (d) Communications
- 8. Benefits of adhering to business ethics:
 - (a) Improved society
 - (b) Change management
 - (c) Strong teamwork
 - (d) Productivity
 - (e) Employee growth
 - (f) Management of the human resources
 - (g) Avoidance of criminal acts
 - (h) Manage values associated with quality management, strategic planning and diversity management
 - (i) Promotion of strong public image



D. BUSINESS AND ENVIRONMENTAL ETHICS

1. Concept of sustainable development
2. Challenges of pollution and resource depletion
3. Interrelationships and interdependence of ecological systems
4. Eco-friendly business practices

E. PUBLIC INTEREST

1. Meaning
2. Composition of the public
3. Negative and positive outcomes (costs and benefits) of public interest
4. Decisions/ actions taken in the public interest as a democratic process
5. Application of public interest issue or policy to cultural and ethical diversity
6. Importance of corporate social responsibility (CSR) in organisations:
 - (a) Need for CSR
 - (b) Key developments in CSR
 - (c) CSR mechanisms
 - (d) Benefits of CSR

F. ACCOUNTANTS IN PUBLIC PRACTICE

1. The professional image of an accountant
2. How accountants in public practice obtain work
3. Potential ethical issues that may arise and possible safeguards

G. CORPORATE GOVERNANCE

1. History and role of corporate governance in Uganda
2. Concept and scope of corporate governance
3. Principles of corporate governance
4. The corporate governance codes of best practice and regulations:
 - (a) The Code of Corporate Governance in the Companies Act,
 - (b) Guidelines of the Institute of Corporate Governance in Uganda
 - (c) The Cadbury 'Code of best practice'
 - (d) King III's Code of Governance Principles
 - (e) The OECD Principles of Corporate Governance



- (f) The Sarbanes-Oxley Act
- 5. Board independence and the various independent board committees
- 6. Role of the following in corporate governance:
 - (a) Board of Directors; Chairman, Executive and Non-executive Directors
 - (b) Chief Executive Officer
 - (c) Corporation Secretary
 - (d) An accountant

H. FRAUD & MONEY LAUNDERING

- 1. Meaning and types of fraud
- 2. Fraud versus error
- 3. Implementation of fraud prevention programs
- 4. Money laundering and the ways it is carried out
- 5. Consequences of unethical behaviour to individuals, accountancy profession and the public

I. WHISTLE-BLOWING

- 1. Procedures for disclosure of unethical behaviour in public interest:
 - (a) Oral reports
 - (b) Use of information communication technology
 - (c) Reduction of disclosure into writing
- 2. Process of reporting unethical conduct:
 - (d) Impropriety
 - (e) Persons qualified to make disclosures
 - (f) Persons to whom or institutions to which disclosure maybe made
 - (g) Compulsory receipt of disclosures
- 3. Process of investigation of impropriety
- 4. Mechanisms of protecting a whistle-blower:
 - (a) Protection from victimisation
 - (b) Protection against court action
 - (c) State protection
 - (d) Application to court for assistance
 - (e) Void employment contracts
- 5. Offences and penalties related to whistle-blowing:



- (a) Disclosing the identity of a whistle-blower
- (b) Disclosing the details of the disclosure
- (c) Victimisation of a whistle-blower
- (d) Making false disclosures
- (e) Unlawfully failing to take action

Note: Reference should be made to relevant Acts especially those listed in the references section

PART III - ENTREPRENEURSHIP

A. MAKING THE BUSINESS GROW

1. Managing growth in a changing environment
2. Challenges of growth and expansion
3. Business protection:
 - (a) Prevention of theft and shoplifting
 - (b) Patents, trademarks, copy rights, trade secrets, licensing
 - (c) Regulations on safety
 - (d) Insurance types and contracts
4. Reasons for business failure
5. Social and ethical responsibility

B. CREATING OWN BUSINESS/ SELF-EMPLOYMENT

1. Factors to consider
2. Generation business ideas/ spotting opportunities(product/ service ideas)
3. Selection of the type of the organisation/ opportunity assessment plan
4. Problems in selecting new ventures
5. Factors to consider for a successful business venture
6. The venture life cycle
7. Financing new ventures:
 - (a) Sources of capital (Internal and external)
 - (b) Credit analysis and assessment of risks
 - (c) Financial planning



- (d) Analysing and managing your finances
- (e) Accounting and record keeping
- (f) Strategies for managing growth and transition in a venture
- (g) Factors affecting the growth of entrepreneurial ventures
- (h) Factors for success at every stage of development
- (i) Assessment and selection of a suitable market
- (j) Evaluation of a business venture

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ANNEX

EXAMINABLE STANDARDS

	INTERNATIONAL STANDARDS ON AUDITING (ISA)
1.	ISA 200 Overall Objectives of Independent Auditor and the Conduct of an Audit in Accordance with International Standards of Auditing
2.	ISA 210 Terms of Audit Engagements
3.	ISA 230 Audit Documentation
4.	ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
5.	ISA 260 Communication with Those Charged with Governance
6.	ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
7.	ISA 300 Planning an Audit of Financial Statements
8.	ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
9.	ISA 320 Materiality in Planning and Performing an Audit
10.	ISA 330 The Auditor's Responses to Assessed Risks
11.	ISA 450 Evaluation of Misstatements Identified during the Audit
12.	ISA 500 Audit Evidence
13.	ISA 505 External Confirmations
14.	ISA 520 Analytical Procedures
15.	ISA 530 Audit Sampling
16.	ISA 610 (Revised) Using the Work of Internal Auditors
17.	ISA 700 Forming an Opinion and Reporting on Financial Statements

