**MARKING GUIDE FOR BCOM TEST 1 2025**

**Qn 1**

**Importance of planning**

ISA 300 *Planning an audit of financial statements* requires an auditor to plan every audit as it ensures:

1. That the auditor devotes appropriate attention to **key audit areas** and those with significant risks.
2. That potential **problems** are identified and resolved on a timely basis.
3. The audit is **properly** organized and completed expeditiously.
4. Appropriate **audit staff** are selected and work is properly assigned to them.
5. Proper **direction**, **supervision** **and review** of audit work.
6. There is proper **coordination** of work done by experts and other auditors.

**(A mark for each benefit, total, 6 marks)**

**Qn 2**

FOUR factors that influence the reliability of audit evidence:

1. Evidence from **external sources** is more reliable than that from internal sources.
2. **Auditor generated** evidence is better than client generated.
3. Internal evidence is more reliable when **controls are effective.**
4. **Written/documentary** evidence is better than oral evidence.
5. **Original** documents are more reliable than photocopies or faxes which can easily be altered.

**(A mark for each factor, up to four, total, 4 marks)**

**Qn 3**

The auditor’s responsibilities relating to fraud in an audit of financial statements according to IAS 240:

1. The auditor should obtain **reasonable assurance** that the financial statements are free from material misstatement, whether caused by fraud or error.
2. In order to fulfill this responsibility, the auditor is required to identify and **assess the risks of material misstatement** of the financial statements due to fraud.
3. The auditor needs to **obtain sufficient appropriate audit evidence** regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses. In addition, the auditor must respond appropriately to fraud or suspected fraud identified during the audit.
4. Maintaining **professional scepticism** throughout the audit, considering the potential for management override of controls and recognising the fact that audit procedures which are effective in detecting error may not be effective in detecting fraud.
5. To ensure that the whole engagement team is aware of the risks and responsibilities for fraud and error, there should be a **discussion within the team** on how and where the financial statements may be susceptible to fraud.
6. If the auditor identifies fraud or receives information that a fraud may exist, the auditor should report this on a **timely basis** to the **appropriate level of management**.

**(A mark for any responsibility, up to four, total, 4 marks)**

**Qn 4**

1. **Audit risks and auditor’s responses**

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| Audit risks | Auditor’s responses |
| Nile Co (Nile) undertakes continuous production and the work in progress balance at the year-end is likely to be material. As production will not cease, the exact cut-off of the work in progress will need to be assessed. If the cut-off is not correctly calculated, the inventory valuation may be under or overstated. | The auditor should discuss with management the process they will undertake to assess the cut-off point for work in progress at the year-end. This process should be reviewed by the auditor while attending the year-end inventory count.  In addition, consideration should be given as to whether an independent expert is required to value the work in progress. If so, this will need to be arranged with consent from management and in time for the yearend count. |
| Nile has ordered Shs 72m of plant and machinery, two-thirds of which may not have been received by the yearend. Only assets which physically exist at the year-end should be included in property, plant and equipment.  If items not yet delivered have been capitalised, PPE will be overstated. Consideration will also need to be given to depreciation and when this should commence. If depreciation is not appropriately charged when the asset is available for use, this may result in assets and profit being over or understated. | Discuss with management as to whether the remaining plant and machinery ordered have arrived; if so, physically verify a sample of these assets to ensure existence and ensure only appropriate assets are recorded in the non-current asset register at the year-end. Determine if the asset received is in use at the yearend by physical inspection and if so, if depreciation has commenced at an appropriate point. |
| A patent has been purchased for Shs 130 million and this enables Nile to manufacture samba motor cycles for the next five years. In accordance with IAS 38 *Intangible Assets*, this should be included as an intangible asset and amortised over its five-year life.  If management has not correctly accounted for the patent, intangible assets and profits could be overstated. | The audit team will need to agree the purchase price to supporting documentation and to confirm the useful life is five years. The amortisation charge should be recalculated in order to ensure the accuracy of the charge and that the intangible is correctly valued at the yearend. |
| The company has borrowed Shs 120 million  from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities. There is a risk of incorrect disclosure if the loan is not correctly split between current and non-current liabilities. | During the audit, the team would need to confirm that the Shs 120m loan finance was received. In addition, the split between current and non-current liabilities and the disclosures for this loan should be reviewed in detail to ensure compliance with relevant accounting standards. Details of security should be agreed to the bank confirmation letter. |
| As the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss. Finance costs may be understated and profit overstated. | The finance costs should be recalculated and any increase agreed to the loan documentation for confirmation of interest rates. Interest payments should be agreed to the cash book and bank statements to confirm the amount was paid and is not therefore a year-end payable. |
| The land and buildings are to be revalued at the year-end; it is likely that the revaluation surplus/deficit will be material. The revaluation needs to be carried out and recorded in accordance with IAS 16 *Property, Plant and Equipment*. Non-current assets may be incorrectly valued. | Discuss with management the process adopted for undertaking the valuation, including whether the whole class of assets was revalued and if the valuation was undertaken by an expert. This process should be reviewed for compliance with IAS 16. |
| Receivables for the year to date are considerably higher than the prior year. The receivables may not be recoverable. There is a risk that receivables may be overvalued. | Discuss with management the reasons for the increase in receivables and management’s process for identifying potential irrecoverable debt. Test controls surrounding management’s credit control processes. Extended post year-end cash receipts testing and a review of the aged receivables ledger to be performed to assess valuation. Also consider the adequacy of any allowance for receivables. |
| Nile is planning to make approximately 80 employees redundant after the year-end.  The timing of this announcement has not been confirmed; if it is announced to the staff before the year-end, then under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* a redundancy provision will be required at the yearend. Failure to provide will result in an understatement of provisions and expenses. | Discuss with management the status of the redundancy announcement; if before the year-end, review supporting documentation to confirm the timing. In addition, review the basis of and recalculate the redundancy provision. |

**(Two marks for each properly explained risk and two marks for each properly explained response, up to 4, total, 16 marks)**