**AUDIT AND ASSURANCE EXAMINATION MARKING GUIDE 2024**

**Question 1**

1. **Substantive procedures for revaluation of land and buildings**
2. Obtain a **schedule** of land and buildings, cast and agree to the trial balance and financial statements.
3. Consider the **competence** of the valuer by assessing the qualification, membership of a professional body and experience in valuing these types of assets.
4. Review the **assumptions and method** adopted by the valuer in undertaking the revaluation to confirm the reasonableness and compliance with principles of IAS 16.
5. Agree all land and buildings in the **non-current assets register** to the valuation report to ensure their completeness and that all assets in the same category have been revalued in line with IAS 16.
6. **Recalculate** the revaluation increases and decreases and check that they are accounted for in accordance with IAS 16 & 36 *Impairment of assets.*

* A revaluation gain is credited to OCI and to revaluation surplus in equity or to profit or loss to the extent of a reversal of a previous revaluation loss on the same asset.
* A revaluation loss is debited to profit or loss or first deducted from the revaluation surplus on the same asset and the balance debited to profit or loss.

1. Recalculate the **depreciation charge** for the year and confirm that for land and buildings at the revaluation date, the depreciation was based on cost before the revaluation and based on the valuation after on a pro rata basis.
2. For a sample of land and buildings from the non-current assets register, **physically verify** to confirm existence.
3. For a sample of land and buildings **trace back to the non-current assets** register and general ledger to confirm completeness.
4. Confirm whether valuations of all revalued assets have been **updated regularly** by asking the finance director and inspecting the previous financial statements.
5. Review the financial statements **disclosures** relating to land and buildings to ensure they comply with IAS 16.

*(A mark for any properly described substantive procedure, up to eight, total, 8 marks)*

**Substantive procedures for trade receivables**

1. Obtain the trade **receivables listing**, cast and agree the total to the trial balance and receivables ledger control account.
2. Obtain a **breakdown** of the trade receivables figure per customer for both the current and the previous period and for major customers compare the current and prior year balances. Discuss with management any missing receivables or significant lower balances to verify completeness.
3. Select a sample of trade receivables from the listing and carry out a **direct confirmation** of receivables to verify existence.
4. Review whether there are any **after-date cash receipts** for slow moving/old receivable balances (*Activity B*).
5. Review the **aged receivables listing** to identify slow moving or old balances. Discuss the status of these balances with the credit controller to assess whether the customers are likely to pay or if an allowance for receivables is required.
6. Review **board minutes** to identify whether there are any significant concerns in relation to outstanding receivables balances and assess whether the allowance is reasonable.
7. Select a sample of **sales invoices** around the year end, inspect the dates and compare with the dates of despatch and the dates recorded in the ledger for correct cut-off.
8. Review the aged analysis of receivables for any large credits, non-trade receivables and long-term receivables and consider whether such items require separate disclosure.
9. Review **correspondence** with customers in order to identify any balances which are in dispute or unlikely to be paid and discuss with management whether any allowance is required to verify classification.
10. Obtain a breakdown of the allowance for trade receivables, r**ecalculate** it and compare it to any potentially irrecoverable balances to assess if the allowance is adequate.

*(A mark for any properly described substantive procedure, up to eight, total, 8 marks)*

1. **Substantive procedures for bank reconciliation**
2. Obtain a bank **confirmation letter** for the bank account from Happy World Co’s bank.
3. Obtain the year end bank reconciliation and cast it to verify its **arithmetical** accuracy.
4. Agree Shs 435,000,000 per cash bookon the year-endbank reconciliation statement to the cash book, trial balance and financial statements.
5. Agree Shs 351,090,000 **per bank reconciliation** statement to the bank confirmation letter and year-end bank statement.
6. Trace all **unpresented cheques** to the December 2024 cash book and the bank statement for January 2025. Obtain explanations from management for cheque No 2411 not cleared at the time of the audit and appears was raised much earlier in the year.
7. Trace the **outstanding deposits** (Nos 1122 and 1123) to the pre year-end cash book, the bank statement for January 2025 and the bank deposit slips to confirm that they were deposited prior to the year end and cleared quickly after the year end. Any not cleared quickly after the year end should be investigated.
8. Review the cash book and bank statements for any **unusual items or large transfers** around the year end as this could be evidence of window dressing.
9. Examine the bank confirmation letter for details of any **security provided** by Happy World Co for any legal right of set-off as this may require disclosure.
10. Review **disclosures** related to bank and cash in the financial statements to ensure they are accurate and complete.

*(A mark for any properly described substantive procedure, total, 9 marks)*

**Question 2**

1. **(i) (ii) Direct controls and tests of control**

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| Direct control | Test of control |
| Freedom Co has a separate human resources (HR) department which is responsible for setting up all new employees. Having a segregation of roles between human resources and payroll departments reduces the risk of fictitious employees being set up  and also being paid. | Review the job descriptions of payroll and HR to confirm the split of responsibilities with regards to setting up new joiners. Discuss with members of the payroll department the process for setting up new  joiners and for confirmation that the process is initiated by HR. |
| Pre-printed forms are completed by HR for all new employees, and includes assignment of a unique employee number, and once verified, a copy is sent to the payroll department. Payroll is unable to set up new joiners without information from these forms.  The use of pre-printed forms ensures that all relevant information is obtained about employees prior to set up. This minimises the risk of incorrect wage and tax payments. In addition, as payroll is unable to set up new joiners without the forms and  employee number, it reduces the risk of fictitious employees being set up by payroll. | Select a sample of new employees added to the payroll during the year, review the joiner forms for evidence of completion of all parts and that the information was verified as accurate and was received by payroll prior to being added to the system.  Select a sample of edit reports for changes to payroll during the year; agree a sample of new employees added to payroll to the joiners forms. |
| Factory employees are issued with clock cards and are required to swipe their cards at the beginning and end of their shift, this process is supervised by security staff. This ensures that genuine employees are only paid for the work actually done, and reduces the risk of employees being paid but not completing their shift. In addition, due to the supervision it is unlikely that one employee could swipe in others. | Observe the use of clock cards by employees when entering the power station. Confirm the security team is supervising the process and following up on discrepancies through discussions with the security staff. |
| The clock card information identifies the employee number and links into the hours worked report produced by the payroll system. As the hours worked are automatically transferred into the payroll system, this reduces the risk of input errors in entering hours to be paid in calculating payroll, ensuring that employees are paid the correct amount. | Utilise test data procedures to input dummy clock card information, verify this has been updated into the payroll system. |
| The payroll accountant selects a sample of the pay slips, reperforms gross to net pay calculations, investigates any discrepancies and the sampled pay slips are the signed as evidence of this review. This reduces the risk of the automated system generating errors during the payroll processing. Any errors would be identified on a timely basis to prevent wages being over or underpaid. | Review the weekly pay slips sampled by the payroll accountant for his signature for evidence of the review of calculations performed. For a sample of the weekly payrolls, reperform the gross to net pay calculation and compare to the payroll system. Discuss any discrepancies with the payroll accountant. Enquire of the payroll accountant whether any discrepancies have been noted during the year between gross to net pay calculations and the figures generated by the payroll system and how these were resolved. |
| On a quarterly basis, exception reports of changes to payroll standing data are produced and reviewed by the payroll manager. This ensures that any unauthorized amendments to standing data are identified and resolved on a timely basis. | Select a sample of quarterly exception reports and review for evidence of review and follow up of any unexpected changes by the payroll manager. |
| The pay envelops are prepared by two staff members using system generated pay slips with one counting the money and the second member recounting the money in the envelops and confirming that it agrees to the pay slips. Both staff members sign the weekly listing. This ensures there is segregation of duties and reduces the likelihood of errors or staff members fraudulently the money in the envelops for friends without being identified. | Observe the preparation of the pay envelops ensuring that two members of staff are involved and they are checked for accuracy. For a sample of weeks throughout the year, inspect the weekly payroll listing for evidence of signature by the two members of staff involved in the preparation of the pay envelops. |

*(A mark for each properly explained direct control and a mark for each properly described test of control, up to five, total, 10 marks)*

1. **Control deficiencies and control recommendations**

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| --- | --- |
| Control deficiency | Control recommendation |
| When raising purchase orders, the purchasing officer chooses whichever supplier can despatch the  goods the fastest. This could result in Freedom Co  ordering goods at a much higher price or a lower quality than they would like, as the only factor considered was speed of delivery. | It is important that goods are despatched promptly, but this is just one of many criteria that should be used in deciding which supplier to use. An approved supplier list should be compiled; this should take into account the price of goods, their quality and also the  speed of delivery. Once the list has been produced, all orders should only be placed with suppliers on the approved list |
| Purchase orders are not sequentially numbered. Failing to sequentially number the orders means that Freedom Co’s ordering team are unable to monitor if all orders are being fulfilled in a timely manner; this could result in stock outs. If the orders are numbered, then a sequence check can be performed for any unfulfilled orders | All purchase orders should be sequentially numbered and on a regular basis a sequence check of unfulfilled orders should be performed |
| Purchase orders below Shs 50 million are not authorised and are processed solely by the purchasing officer. This can result in goods being purchased which are not required by Freedom Co.  In addition, there is an increased fraud risk as the purchasing officer could place orders for personal goods up to the value of Shs 50 million, which is significant. | All purchase orders should be authorised by a responsible official. Authorised signatories should be  established with varying levels of purchase order authorisation. |
| GRNs are only sent to the finance department. Failing to send a copy to the purchasing department means that it is not possible to monitor the level of unfulfilled orders. This could result in a significant level of unfulfilled orders leading to stock-outs and a  consequent loss of sales. In addition, if the GRN is  lost, then it will not be possible for the finance department to match the invoice to proof of goods  being received. This could result in a delay to the invoice being paid and a loss of supplier goodwill. | The GRN should be created in three parts with one copy of the GRN being sent to the purchasing department. The second copy should be held at the warehouse and the third sent to the finance department. A purchasing officer should agree their copy of the GRN to the purchase order and change the order status to complete. On a regular basis, a review should be undertaken for all unfulfilled orders and these should be followed up with the relevant  supplier. |
| Okello, the purchase ledger accountant, only utilises document count controls when inputting invoices into the purchase ledger. Document count controls  can confirm the completeness of input. However, they do not verify the accuracy or validity of input.  If the invoices are not input correctly, suppliers may not be paid on time, or paid incorrect amounts leading to an overpayment or loss of supplier goodwill who may withdraw credit facilities. | The purchase ledger accountant should instead input the invoices in batches and apply application controls, such as control totals, rather than just completeness checks to ensure both completeness  and accuracy over the input of purchase invoices. In  addition, sequence checks should be built into the  system to ensure completeness of input. |
| The company values its inventory using standard  costs, which are not being kept up-to-date. If the standard costs were reviewed 18 months ago, there is the risk that the costs are misstated as changes in raw materials and wages inflation may not have been adjusted for. This could result in inventory being under or overvalued and profits being misstated. In addition for year-end reporting, IAS 2 *Inventories* only allows standard costs to be used for valuation purposes if they are a close approximation to actual costs, which is unlikely if the standard costs remain unchanged for a long period of time. Therefore the valuation may not be in line with IAS 2. | A review of all standard costs currently in use should be undertaken by a senior manager in the production department. Actual costs for materials, labour and overheads should be ascertained and compared to the proposed standard costs to ensure they are a close approximation. The revised standard costs should be reviewed by the production director who should evidence this review. At least annually, a review of the standard costs should be  undertaken to ensure they are up-to-date. |

*(A mark for each properly explained deficiency and a mark for each properly explained recommendation, up to*

*four, total, 8 marks)*

**c) Substantive procedures for payroll expenses**

1. **Agree the** wages and salaries expense per payroll to general ledger accounts and financial statements and investigate anydifferences to verify completeness and accuracy.
2. Compare the **total payroll expense** to the prior year and budget and investigate any significant differences.
3. Review **monthly payroll charges**, compare this to the prior year and budgets and discuss with management for any significant variances.
4. Perform a **proof in total** of total wages and salaries, incorporating joiners and leavers and the annual pay increase to verify accuracy of the payroll expenses.
5. Select a **sample of employees’ wages and salaries** from the payroll and agree each to human resourcerecords, records of hours worked, production records to verify occurrence and accuracy of remuneration.
6. Trace a sample of time sheets/clock cards/production records and **overtime sheets** to the payrolls to verify completeness of the payrolls.
7. Select a sample of **joiners and leavers**, agree their start/leaving date to supporting documentation, recalculate that their first/last pay was accurately calculated and recorded.
8. **Re-perform calculations** on a sample of employees’ gross pay and net pay on payrolls to verify the accuracy of the payroll expense.
9. Verify the validity and accuracy of **deductions** by inspecting supporting documentation.
10. Verify the **existence** of employees on the payroll by performing a head count, attending a wages payout, inspecting human resource records, PAYE and NSSF returns and staff lists signed by managers.
11. Inspect payroll for **unusual items** and investigate them further by discussion with management.
12. Confirm **net pay** per payroll to cash book, cheques or bank transfer summary to confirm completeness and accuracy.
13. Agree **year-end liabilities** in the SOFP to payrolls and subsequent payment after the year-end in the cash book. Confirm that deductions were remitted on time by reviewing correspondence for any disputes.

*(A mark for any properly described substantive procedure, up to seven, total, 7 marks)*

**Question 3**

1. **Substantive procedures for additions to equipment**
2. Obtain the detailed breakdown of the costs incurred on the new equipment, cast the breakdown and confirm that it is included in the non-current asset register I order to confirm completeness of the addition.
3. Confirm the purchase price of Shs 32m and delivery and installation costs of Shs 1m to supplier invoices and that the invoices are in the names of Just Co in order to confirm valuation and rights and obligations.
4. Discuss the treatment of the refundable VAT of Shs 5.4m with the finance manager as this should be excluded from cost. Agree to inclusion in the VAT account.
5. Request that management expenses the Shs 600,000 training costs to profit or loss as they are not eligible for capitalization.
6. Confirm to a journal entry that the adjustments have been made.
7. Select a sample from non-current asset register and physically inspect the new equipment to confirm existence.

*(A mark for any properly described substantive procedure, total, 6 marks)*

1. IAS 2 requires inventory to be measured at the lower of cost and net realisable value (NRV). √

NRV is the estimated selling price less estimated costs necessary to make the sale.

*Inventory code Days in inventory Original cost Selling price Costs to sell Carrying amount*

Shs Shs Shs Shs

C 800 98 120,000 202,000 20,000 120,000√

C 600 127 145,000 160,000 25,000 135,000√

C 500 109 180,000 260,000 30,000 180,000√

435,000√

Inventory is overstated by Shs 60,000 and should be written down to Shs 435,000.√

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

c) **Substantive procedures for inventory valuation**

1. For a sample of inventory items (finished goods and WIP), obtain the relevant cost sheets and confirm raw material costs to recent purchase invoices, labour costs to wage records and overheads allocated are of a production nature and based on the normal level of production.
2. Select a sample of year-end finished goods and review post year-end sales invoices to ascertain if net realizable value (NRV) is above cost or if an adjustment is required.
3. For the defective food item, discuss with management their plans for disposing of these goods, and why they believe these goods have a NRV of Shs 4m.
4. If any of the defective items has been sold after the year-end, agree to the sales invoice to assess NRV.
5. Agree the cost of Shs 7.2m for the defective item to supporting documentation to confirm the raw material cost, labour cost and any overheads attributed to the cost.
6. Confirm if the final adjustment for defective item Shs 3.2m (7.2m – 4m) and discuss with management if this adjustment has been made; if so confirm the write down.
7. Review the financial statements disclosures relating to inventory write down to ensure they comply with IAS 2 *Inventories*.

*(A mark for each properly described substantive procedure, up to seven, total, 7 marks)*

d)

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Inspect the GDNs number 127058 and determine the date on which the goods were dispatched. √

If the goods were not dispatched until after the year end, request that management removes the amount from revenue and receivables√ and

Record the goods as inventory at the year -end. √

Musoke

1. Discuss the reason for the disputed invoice with management and review the customer correspondences file for any additional information.√
2. Enquire from management whether a credit note has been issued post year end in relation to this and physically verify the credit note.√
3. If no credit note has been issued, discuss recoverability of the amount with credit control/management√

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

**Question 4**

1. **Preconditions for an audit**

ISA 210 *Agreeing the terms of audit engagement* requires auditors to accept a new audit engagement after assessing whether the following preconditions for an audit are present:

1. Management using an acceptable **financial reporting framework** required by laws and IFRSs.√
2. Obtain management’s agreement (written representation) that it understands its responsibilities for:

* Preparing **financial statements** that show a true and fair view using the reporting framework.√
* **Establishing internal control** to ensure the financial statements are free of material misstatement.√
* Providing the auditor **unrestricted access** to all records and staff.√

*(A mark for each tick, total, 4 marks)*

1. **Procedures for external confirmation**
2. Obtain listing of trade receivables as at confirmation date
3. Agree total to nominal ledger
4. Review for any obvious omissions/misstatements by comparing this year’s list with the last years
5. Select a sample of accounts for confirmation. An aged receivables report may be used to make the selection
6. Send an additional confirmation request if no reply in a reasonable time
7. Follow up by phone/email/fax if still no reply
8. Where no reply is received obtain confirmation of individual outstanding invoices using alternative procedures
9. Further audit work is required where the confirmation response disagrees with the balance selected

(*A mark for each procedure, up to 5, total, 5 marks*)

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

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| Audit risks | Auditor’s responses |
| Victoria Co (Victoria) 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. |
| Victoria 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 Victoria 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. |
| Victoria 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 risk and two marks for each response, up to 4, total, 16 marks*)

**Question 5**

1. **General principles of an audit**
2. **Compliance with the code of ethics** relating to an audit of financial statements issued by ICPAU and IFAC that requires an auditor to comply with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.
3. **Perform an audit in accordance with International Standards on Auditing (ISAs)** thatprovide the basic principles and essential procedures. An audit should comply with all the ISAs relevant to the audit engagement and an auditor is required to state whether the audit complies with all relevant ISAs.
4. **Professional scepticism** is an attitude of a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud and a critical assessment of audit evidence. For example, the auditor should be alert to conditions which may indicate possible fraud.
5. **Professional judgment** is the application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. For example professional judgment is required in evaluating whether sufficient appropriate evidence has been obtained.
6. **Sufficient appropriate audit evidence** should be obtained during the audit in order to obtain reasonable assurance and reduce audit risk to an acceptably low level to enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.

*(A mark for each properly explained principle, total, 5 marks)*

1. **Functions of an Audit Committee**
2. Monitor the integrity of **financial statements** e.g. reviewing changes in accounting policies, significant adjustments arising from the audit, the going concern assumption and compliance with the IFRSs, stock exchange and other legal requirements.
3. Review the company’s **internal control** and risk management systems.
4. Monitor and review the effectiveness of the company’s **internal audit** function. Where is no audit function, to consider annually whether there is need for one.
5. To recommend **appointment and removal** of the external auditor.
6. To approve the **remuneration** of the external auditor.
7. Monitor the **independence** and objectivity of the external auditor.
8. Review the external auditor’s **management letter(s)** and management’s response.
9. To implement policy on the supply **non-audit services** by the external auditor**.**
10. Monitor arrangements safeguarding the privacy of **whistle-blowers.**

(*A mark for each function, total, 5 marks*)

1. Members of the ICPAU must comply with the following five fundamental principles
2. **Integrity** means honesty, fair dealing and truthfulness. Accountants should behave with integrity in all professional and business relationships.
3. **Objectivity** means to not allow bias, conflict of interest or undue influence of others to override judgments. Accountantsshould strive for objectivity in all professional business and judgements by being independent.
4. **Professional competence and due care** meansto undertake work one is competent to perform and acting diligently i.e. accountants should carry out their professional work with due skill, care, diligence and expedition and with proper regard for the technical and professional standards expected of them.
5. **Confidentiality** meansaccountants should not disclose client information received during their professional and business relationships to third parties without proper authority or unless there is a legal or professional right or duty to disclose. Accountants should not use confidential information received for their personal advantage or for the advantage of a thirty party (**insider dealing**).
6. **Professional behavior** meansaccountants should conduct themselves in a manner that portrays a positive image of the profession. Professional behaviormeans tocomply with relevant laws and regulations and avoid any action that discredits the profession, e.g. accountants should not advertise their services.

(*A mark for each fundamental principle, total, 5 marks*)

1. FIVE substantive procedures used to verify rights and obligations regarding property
2. Verify **title** to land and buildings by inspection of land titles, land transfer forms and leases.
3. Carry out a search of land titles at the lands office to verify their authenticity.
4. Obtain a **certificate** **from lawyers/bankers** stating that land certificates are held for custody only and are free from mortgage or lien.
5. Inspect **log books** for vehicles held, confirming that they are in client's name.
6. Confirm all vehicles are used for the **client's business**.
7. Examine **documents of title** for other assets like purchase invoices, architects' certificates, contracts and lease agreements.
8. Inspect loan agreements and the **mortgage register** for assets used as security.
9. Review leases of leasehold properties to ensure that the company has fulfilled **covenants** therein.
10. Examine **invoices** received after year end, orders and minutes for evidence of **capital commitments**.

(*A mark for each* substantive procedure*, up to 5, total, 5 marks*)

1. **Audit procedures** **during attendance at the inventory count**
2. **Observe** whether the client's staff are following instructions to ensure the count is complete and accurate.
3. Perform **test counts** (concentrating on high value items) to ensure internal controls are working properly:

* Select a sample of inventory (concentrating on high value items) from inventory sheets and physically inspect them to verify the existence of inventory.
* Physically inspect a sample of inventory items and trace them to inventory sheets to verify the completeness of the inventory count.

1. Observe the counts in order to confirm that the procedures for identifying and segregating **damaged goods** are operating correctly and inspect inventory for evidence of any damaged or slow moving items.
2. Observe the procedures for **movements** of inventory during the count in order to confirm that all movements have ceased (where there has been no closure, goods received during the count is kept separately).
3. Obtain **copies** of inventory sheets for follow up testing to determine whether the entity’s final inventory records accurately reflect actual inventory count results.
4. Obtain **copies of the last GRNs and GDNs** before the count date and the first **GRNs and GDNs** after the inventory count in order to perform cut-off procedures at the year end.
5. Observe the procedures carried out by the entity staff in identifying **third party** inventories are operating correctly and review the completed inventory count sheets to confirm no third inventory is included.

(*A mark for each* substantive procedure*, up to 5, total, 5 marks*)

**Question 6**

1. Subsequent events are events occurring between the date of the financial statements and the date of the auditor’s report and acts that become known to the auditor after the date of the auditor’s report. (*1 mark*)

**Adjusting events** provide evidence of conditions that existed by the reporting date. (*1 mark*)

Examples include:

* Sale of **inventory** after year end providing evidence of its net realisable value at year end.
* Settlement of a **court case** at a different amount.
* Discovery of **errors or fraud** in the financial statements.

**They** require financial statements to be adjusted. (*1 mark*)

**Non-adjusting events** are events that occurred after the reporting date but which are material. (*1 mark*)

Examples include:

* Destruction of material property.
* Take-over of the business.
* Dividends declared after the year-end.

They should be disclosed in the notes to the financial statements. (*1 mark*) *(Total, 5 marks)*

1. Audit procedures to identify material subsequent events before the auditor’s report
2. **Review** management procedures for identifying subsequent events.
3. Read **board minutes** of meetings held after the reporting date up to the date of signing the auditor’s report.
4. Review the entity’s latest **interim** financial statements, budgets and cash flow forecasts.
5. Inquire of the entity’s **lawyers** about court cases and claims.
6. Inquire of management as to whether any **subsequent events** have occurred that might affect the FS e.g. sale or destruction of assets, issue of shares/bonds, provisions & contingencies, going concern issues.
7. Obtain **written representation** as to the completeness of subsequent events identified by management

*(A mark for any properly explained procedure, up to five, total 5 marks)*

1. Types of modified opinion
2. **Qualified opinion** is given when:

* There is a material misstatement that is not considered pervasive arising from:
* The inappropriateness or misapplication of selected **accounting policies** e.g. material misstatement of inventory.
* The inappropriateness or inadequacy of **disclosures** in the financial statements

*(1 mark)*

* There is insufficient appropriate evidence that is material but is not considered pervasive arising from:
* There is inadequate accounting records lost or destroyed.
* Auditor appointed after the year end after the inventory count.
* Management prevents the auditor from obtaining audit evidence e.g. refuses external confirmation

*(1 mark)*

1. An **adverse opinion** is given when there is a material misstatement that is considered pervasive i.e. where the financial statements are misleading or could be misleading. For example, three material misstatements involving property, receivables and inventories or a misstatement in inventories that 95% of total assets.

*(2 marks)*

1. A **disclaimer of opinion** is given when there is insufficient appropriate evidence that is material and pervasive arising from inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements that are could be both material and pervasive e.g. revenue, receivables and inventories. *(2 marks)*

*(Total, 6 marks)*

c) (i) Substantive procedures on receivable balance from Prince Company

* Review correspondence with Prince Co to establish if there was a discussion about payment difficulties and whether Prince Co intends to fully settle the outstanding amount.
* Review the age of the outstanding debt with Prince Co and discuss the circumstances with the credit controller to establish if it has exceeded the agreed credit terms and consider if an allowance is required.
* Review post year-end receipts from Prince Co to establish how much of the debt was recovered by the audit completion date and to assess how much of the year-end balance remains outstanding.
* Inspect board minutes to identify any significant concerns in relation to payments by Prince Co.
* Discuss with management of Perfect Co why no allowance has been made in respect of this debt.

*(A mark for any properly explained procedure, up to four, total 4 marks)*

1. This information received after the year-end about a key customer experiencing financial problems but provides further evidence of the recoverability of the receivable balance at the year-end. If the customer is experiencing cash flow difficulties just a few months after the year-end, then it is highly unlikely that the year-end receivable was irrecoverable as at 31 December and hence is an adjusting event. *(1 mark)*

The total amount outstanding at the year-end was Shs 20m and is material as it represents 8.7% (20m/230m) of profit before tax. The directors have to amend the 2023 financial statements by writing off the receivable balance. *(1 mark)*

If the financial statements are not amended, a qualified opinion will be issued as the misstatement is material and not pervasive.  *(1 mark)*

The opinion paragraph would be, ‘In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the financial statements give a true and fair view of the financial position of Prince Co as at 31 December 2023, and of its financial performance and its cash flows for the year then ended and comply with the International Financial Reporting Standards and the Companies Act of Uganda 2012.  *(1 mark)*

A basis for qualified opinion paragraph is included explaining the non-compliance with IFRS 9 as the receivables balance is materially overstated. *(1 mark)*

(*Total, 5 marks*)