

## QUESTION 1

‘The modern approach to auditing is to first ascertain the client’s system of internal controls, to confirm that it is in fact working, to evaluate it and only then to carry out further work in the areas that the evaluation has shown to be weak’.

### *Required:*

- (i) Describe how in the course of an audit of a manufacturing company an auditor should ascertain the client’s system of internal control. *(4 marks)*
  
- (ii) In recording the system of internal control, the auditor may make use of
  - (a) narrative notes
  - (b) flow charts; and
  - (c) internal control questionnaires.

Enumerate the main advantages of using each of these **three (3)** forms of recording *(8 marks)*

- (iii) Explain why it is necessary for the auditor to record the system of internal control, particularly as the client may change the system from year to year. *(5 marks)*
  
- (iv) Explain the use of the audit notes on the system of internal control in the design of compliance tests. *(3 marks)*

**(Total: 20 marks)**

## QUESTION 2

Obolo Distilleries Company is a large manufacturing and wholesaling group. The company maintains an Internal Audit Department reporting directly to the Managing Director.

### *Required:*

- (a) Describe **four (4)** categories of functions that the Internal Audit Department may carry out. *(4 marks)*
  
- (b) List the aims which the internal and external auditors may have in common. *(5 marks)*
  
- (c) List **three (3)** of the factors that will influence the external auditor in deciding on the extent to which he may rely on the work of the Internal Audit Department. *(3 marks)*
  
- (d) State **four (4)** specific ways in which the Internal Audit Department could assist the external auditor. *(4 marks)*
  
- (e) Internal Auditing is a fast growing area of activity for accountants. Discuss why this is so. *(4 marks)*

**(Total: 20 marks)**

### QUESTION 3

‘Audit Evidence must be reviewed critically with respect to its validity and relevance as evidence before it is permitted to influence the mind of the auditor with respect to the assertion at issue’.

**Required:**

- (a) An auditor is considering a file of copies of credit sale invoices as evidence for the credit sales figure in the accounts. How would he assess the validity and relevance of this file as audit evidence? **(4 marks)**
- (b) A mail order company invoices its customers with up to five ladies’ dresses. Most customers accept and pay for one or two dresses and return the rest. A credit note is then issued. The accounts incorporate a provision for returnable dresses at the year end. The audit is completed very quickly and events after the reporting period not usable by the auditor as evidence.

What evidence would the auditor regard as valid and relevant in respect of the provision?

**(4 marks)**

- (c) What factors would influence an auditor in considering the acceptability as evidence of certificates received from third parties? **(6 marks)**
- (d) A building contracting company has constructed an office block on its own land for its own use. State the evidence the auditor would require on the cost of the building.

**(6 marks)**

**(Total: 20 marks)**

### QUESTION 4

You are required to state:

- (a) What circumstances might indicate that an enterprise is no longer a going concern. **(12 marks)**
- (b) The audit procedures you would employ to satisfy yourself that an enterprise has sufficient cash resources to meet its needs as they arise. **(8 marks)**

**(Total: 20 marks)**

### QUESTION 5

- (a) When considering accepting appointment, auditors should obtain information from certain sources. State **five (5)** of these sources. **(5 marks)**
- (b) When determining the need to use the work of an expert the auditor would consider certain factors. Briefly state **five (5)** of these factors. **(5 marks)**

- (c) There are various types of Computer Assisted Audit Techniques (CAATs) that are in use by the auditor for his work.

**Required:**

State in brief the following types of CAATs.

- (i) Logical path analysis *(1½ marks)*
- (ii) Code comparison programs *(1½ marks)*

- (d) You are the auditor of Shaishie Company Limited, in Accra. The CEO, Nii Amu, returned from a seminar on Auditing and Investigations where the resource person who is a Chartered Accountant stressed on test- checking as a technique. Nii Amu did not understand what test checking is all about and has cursed his stars for attending the seminar.

**Required:**

- (i) Explain Test-checking. *(4 marks)*
- (ii) State **three (3)** advantages of test-checking to Nii Amu. *(3 marks)*

**(Total: 20 marks)**