

**JULY 2024 PROFESSIONAL EXAMINATIONS
AUDIT & ASSURANCE (PAPER 2.3)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

The standard of the paper was generally good covering all the syllabus. The questions were practical and within the syllabus in terms of structure and weightings. The paper was not overloaded and broadly free from ambiguities, errors and typing mistakes.

PERFORMANCE OF THE CANDIDATES

The overall performance was good. A total of one hundred and twenty (129) candidates sat for the examination, out of this total, one hundred and seventeen (117) passed and twelve (12) failed. In terms of percentages, the pass rate was 90.70% compared to 82.73% achieved in March 2024. The highest score was 88 marks as against the lowest of 31 marks.

STRENGTHS & WEAKNESSES OF CANDIDATES

Strengths

Most Candidates demonstrated strengths in questions 1, 3 and 5. Those who attempted questions 1(a), 2, 3(a) and 4 scored higher marks due to high quality of teaching by the tuition providers and good preparation of most of the candidates.

Weaknesses

Some candidates struggled to answer the following questions:

- Question 1 b); difference between statistical sampling and non-statistical sampling.
- Question 1 c); the use of preliminary analytical review as a planning tool.
- Question 3 a); audit software and text data.
- Question 5 a); responsibilities of external auditor concerning a going concern.
- Question 5 b); distinction between three main types of modified audit report.

However, these weaknesses did not prevent majority of candidates from obtaining the pass mark of fifty (50).

QUESTION ONE

- a) The Management of Sika Ltd is considering outsourcing its internal audit function. They are unsure of the benefits and challenges of outsourcing the internal audit function.

Required:

Explain to the Management of Sika Ltd **THREE (3)** benefits and **TWO (2)** challenges of outsourcing the internal audit function of the company. **(5 marks)**

- b) In planning an audit engagement, the auditor has to consider various techniques to be employed, such as sampling.

ISA 530 Audit Sampling states that the objective of the auditor, when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Required:

In relation to the statement above:

Explain the difference between *statistical sampling* and *non-statistical sampling*. **(5 marks)**

- c) Demonstrate the use of *Preliminary Analytical Review* as a planning tool in an audit. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

- a) Birlo Ltd is a manufacturing company based in Ghana, and they are considering appointing an external auditor to conduct their annual financial audit. The company has shortlisted three audit firms and is currently evaluating their proposals.

Required:

Discuss **FOUR (4)** factors to be considered by the company before appointing the external auditor. **(10 marks)**

- b) Annan & Partners has been in operation for over 15 years. The firm has a reputation for providing high-quality audit services to its clients and adhering to ethical and professional standards. The firm has received a request from a new company, Kundi Ltd, to provide audit services for the first time.

Required:

Explain **FIVE (5)** factors a professional accountant in public practice should consider before accepting a new audit client. **(10 marks)**

(Total: 20 marks)

QUESTION THREE

- a) Odessey Ltd is a large multinational corporation that operates in various industries. As part of their annual audit, the external auditor has decided to use Computer-Assisted Techniques (CAAT) to obtain evidence and test the effectiveness of the company's internal controls.

Required:

In relation to the statement above:

- i) Explain the terms *Audit software* and *Text data*. (4 marks)
ii) State **THREE (3)** disadvantages of CAAT. (6 marks)

- b) Assertions are used by external auditors to evaluate the financial statements of an entity. These assertions are statements that represent the responsibilities of the management in relation to the financial statements. External auditors use assertions to assess the accuracy and completeness of the financial statements and to determine the level of risk associated with them.

Agaa Ltd is a Ghanaian company that specialises in the production and distribution of food products across the country. As part of the annual audit, the external auditors have identified various assertions that will guide their audit procedures.

Required:

Discuss **THREE (3)** assertions under each of the following headings in (i to iii) that can be used by the auditors in the audit of Agaa Ltd relating to:

- i) Income Statement
ii) Statement of Financial Position
iii) Presentation and Disclosures

(10 marks)

(Total: 20 marks)

QUESTION FOUR

- a) To promote quality, expertise and integrity in the audit profession, auditors and audit firms are controlled and regulated in many different ways. One of such ways is issuing auditing standards for audits of financial statements.

Required:

In relation to the statement above:

Explain how International Standards on Auditing (ISAs) are developed by the International Auditing and Assurance Standards Board (IAASB), and explain the authority of ISAs.

(10 marks)

- b) In the conduct of the audit of historical financial information, external auditors could rely on the works of others, for instance, *ISA 610 (Revised 2013): Using the Work of Internal Auditors* provides guidance to external auditors on the use of internal audit work.

Required:

Explain the various criteria that should be considered by external auditors when assessing whether to rely on the work performed by internal auditors. **(5 marks)**

- c) An entity usually creates an internal audit department if it considers the benefits sufficient to justify the cost.

Required:

Discuss **FIVE (5)** functions of an internal audit department. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) The provisions in **ISA 570: Going Concern** deal with the auditor's responsibilities in relation to management's use of the going concern basis of accounting in the preparation of the financial statements.

Required:

Explain **FOUR (4)** responsibilities of the external auditor concerning the going concern status of companies. **(4 marks)**

- b) List and describe the **THREE (3)** main types of modified audit report. **(3 marks)**

- c) Fianso Cannery processes tomatoes, garden eggs and onions and sells them in cans. The company has its factory located at Techiman in the Bono East Region of Ghana. The company borrowed a huge sum of money from the bank to start and operate the business. Its preservatives and cans are imported. The recent inflation and cedi depreciation with consequent economic downturn have led to a decline in the company's profitability making it difficult for the company to repay its loans on time. The management of the company has concluded that the best option is to sell the business. This matter has not been disclosed in the financial statements.

Required:

Based on the information provided above, describe the audit report appropriate to be issued in the case of Fianso Cannery. **(3 marks)**

- d) Rondo Ltd sells ladies clothing directly to the final consumer. It has branches all over the regions of Ghana. The company forecasts nine months in advance to ascertain the key trends in fashion and operates a centralised procurement system.

Ordering procedure

Each region has a Procurement Manager. The managers determine the inventory levels for their respective stores and communicate directly with the head office. The managers do not consult the sales managers and the store managers in determining inventory levels. The head office on receipt of the inventory levels passes them to the Procurement Manager at the head office to review, authorise and place the orders. All orders are made by the

Procurement Manager at the head office. The lead time is four weeks so the store managers review inventory levels weekly to avoid shortages.

Goods received procedure

In order to avoid delays in the receipts of goods ordered, goods are delivered directly from the suppliers to the individual regional stores. On receipt of goods, the quantities received are checked by a sales assistant against the supplier's delivery note, and then the assistant issues the goods received note (GRN). This is done at the time of the day when there are no orders from customers to maximise sales. The checked GRNs are sent to the head office for reconciliation with purchase invoices. Purchase invoices are received by the procurement section at the head office, they are manually matched to GRNs from the stores. Once the invoice has been agreed it is sent to the purchasing director for authorisation. It is at this stage that the invoice is entered onto the purchase ledger.

Required:

As the External Auditor of Rondo Ltd, write a management letter in accordance with *ISA 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*. Your letter should cover **TWO (2)** deficiencies and their respective recommendations under each procedure.

(10 marks)

(Total: 20 marks)

SUGGESTED SOLUTIONS

QUESTION ONE

a)

Benefits of Outsourcing

There are several advantages of outsourcing internal audit work:

- **Staff recruitment.** There is no need for the company to recruit and train its own internal audit staff. An internal audit function can be instantly available by hiring the services of an accountancy firm.
- **Auditor skills.** The outside supplier is likely to have specialist staff available, such as computer audit experts. Internal auditors with an IT specialisation may be difficult to recruit as full-time employees.
- **Costs and flexibility.** The cost of the internal audit function is a variable cost rather than a fixed cost. A company therefore only pays for the internal audit time that it uses.
- Outsourcing is likely to be more economical for a small entity that does not have enough audit work to justify a full time internal audit team.

(Any 3 points @ 1 mark each = 3 marks)

Challenges of Outsourcing

If internal audit work is outsourced to the company's external auditors, independence problems may arise for the external auditor. These should be assessed and managed in accordance with the ethical rules.

There are also other problems with outsourcing internal audit work:

- **Changing personnel.** The internal auditors provided by an external firm may change continually, and there may be a lack of continuity as a consequence. The internal auditors who are used may not have an understanding of the client's business.
- **Cost.** An accountancy firm will charge high fees for internal audit services.
- **Confidentiality.** The internal auditors provided by an external firm will be expected to maintain complete confidentiality about the client's affairs. However, the risk of a 'leak' may be higher than if full-time internal auditors are employed.
- **Control.** An entity may not have the same control over its internal audit work if the work is outsourced.
- **Conflict of interest.** If internal audit work is carried out by the entity's firm of external auditors, the internal auditors and external auditors may have a conflict of interest (affecting their independence and objectivity).

(Any 2 points @ 1 mark each = 2 marks)

b) **Statistical sampling:** - is any approach to sampling that involves random selection of a sample, and the use of probability theory to evaluate sample results, including measurement of sampling risk.

Non-statistical sampling: - is where the auditor does not use statistical methods and draws a judgmental opinion about the population.

(2.5 marks each = 5 marks)

c) **How preliminary analytical review can be used as a planning tool.**

It is used at the planning stage of an audit to help the auditor to obtain an understanding of the financial circumstance of the client,

For example, a reduction in gross profits percentage may indicate that the company may eventually make a net loss or increase in the debt collection period may indicate risk of uncollectible receivables.

It helps to identify potential risk areas to which an attention should be paid during the audit. For example, liquidity and profitability ratios can point to going concern problems which may need to be evaluated.

It determines the nature, timing and extent of audit procedures. For example, an evidence obtained from preliminary analytical procedures may enable the auditor to determine what audit procedures to perform to respond to the risks identified.

It helps in assignment of work to staff such as high risk areas assigned to experienced staff.

(4 points @ 2.5 marks each = 10 marks)

(Total: 20 marks)

QUESTION TWO

a) When appointing an external auditor in Ghana, there are several regulatory, professional, and ethical issues that need to be considered. Here are some of the key issues:

Regulatory Issues:

- **Registration:** The auditor should be registered with the relevant bodies eg the Registrar-General.
- **Compliance:** The auditor should comply with the local laws, regulations, and standards, including the International Standards on Auditing (ISA) and the International Financial Reporting Standards (IFRS). The auditor should be registered and licensed with the Institute of Chartered Accountants Ghana (ICAG)
- **Independence:** The auditor should be independent from the entity being audited, as per the requirements of the Companies Act 2019, Act 992 and other regulatory bodies.

Professional Issues:

- **Competence:** The Company should confirm if the auditor possesses the necessary skills, knowledge, and experience to perform the audit effectively.
- **Resources:** The Company should confirm if the auditor has adequate personnel, time and logistics to complete the assignment effectively
- **Reference:** the company should contact the referees given by the auditor to confirm the professional behavior of the auditor.
- **Fees:** the company should review the proposed fees of the auditor and consider the reasonableness and the basis of the fees
- **Due Care:** The auditor should exercise due care and professional skepticism when performing the audit and in accordance with ISA 200.
- **Quality Control:** The Company should look at how the auditor adhere to the quality control procedures set out by their firm to ensure that the audit is conducted in accordance with the applicable standards.

Ethical Issues:

- **Confidentiality:** The auditor should maintain the confidentiality of the information obtained during the audit, as per the requirements of ISA 300.
- **Integrity:** The auditor should act with integrity and avoid any actions that could compromise their independence or objectivity.
- **Professional Behavior:** The auditor should avoid any behavior that could damage the reputation of the profession, the entity being audited, or themselves.

In conclusion, the appointment of an external auditor in Ghana requires a thorough consideration of regulatory, professional, and ethical issues to ensure that the audit is conducted effectively and ethically. It is essential that auditors comply with local laws and regulations and adhere to the professional standards set out by regulatory bodies such as ICAG.

(Any 4 points @ 2.5 marks each = 10 marks)

- b) There are several factors that auditors must consider before accepting a specified audit or assurance engagement. In addition to business and financial considerations, auditors must also consider legal, professional, and ethical considerations.

Before accepting the engagement with Kundi Ltd., the audit firm must consider several factors. These factors include the following:

- **Independence and Ethical Requirements:** The audit firm must ensure that it is independent in both fact and appearance from Kundi Ltd. and its management. The firm must also comply with ethical standards set by the International Ethics Standards Board for Accountants (IESBA) and national laws and regulations.
- **Legal Requirements:** The audit firm must comply with legal requirements set by regulatory bodies such as the Securities and Exchange Commission (SEC), Institute of Chartered Accountants, Ghana, this includes being licensed and registered with relevant authorities, complying with auditing and accounting standards, and fulfilling reporting requirements.
- **Competence and Resources:** The audit firm must ensure that it has the necessary competence and resources to perform the audit engagement effectively. This includes having a sufficient understanding of Kundi Ltd.'s business and industry, technical knowledge, and adequate staffing and resources.
- **Financial Considerations:** The audit firm must consider the financial aspects of the engagement, including the fees to be charged, payment terms, and potential liability risks.
- **Reputation and Client Acceptance:** The audit firm must consider the reputation and integrity of Kundi Ltd. and assess whether it is willing to work with the company. The audit firm's reputation and risk management policies may also be impacted by their association with Kundi Ltd.

Conclusion:

Based on the above factors, Annan & Partners has decided to accept the audit engagement with Kundi Ltd. The firm has conducted a thorough assessment of Kundi Ltd.'s financial position, industry, and management team. The firm has also ensured that it complies with ethical and professional standards and is independent in both fact and appearance. Finally, the firm has agreed on the fee and payment terms with Kundi Ltd. and will provide high-quality audit services in compliance with legal, professional, and ethical requirements.

(Any 5 points @ 2 marks each = 10 marks)

(Total: 20 marks)

QUESTION THREE

a)

- i) **Audit software:** It is test data which is of most relevance to test of controls. The technique provides evidence of the operations of specific applications controls in a given system. Audit software is more relevant to substantive testing and therefore considered in a Computer Assisted Audit Techniques (CAAT) which is a method of gathering and reviewing electronic records. CAAT is used to simplify or automate the data analysis and audit process, and it involves using computer software to analyze large volumes of electronic data for anomalies

Test Data: The use of test data involves the auditor processing a sample of data through the IT system and comparing the results obtained from the processing with predetermined results. A potential problem using test data is that it will only give audit evidence at the time that the test data is processed. Procedures may therefore be written into the client entity's computer information systems that will generate data for audit purposes every time the process is run. One way of achieving this without corrupting the client's data files with the test data is to establish an extra dummy department, to which test data results are allocated. Only the auditor should have access to the data stored in this dummy department.

(2 marks each = 4 marks)

Disadvantages of CAATs

CAATS give the auditor the ability to audit the processing of transactions in an IT system. However, there are some disadvantages with using CAATs. They can be expensive, and the use of CAATs should be evaluated on a cost benefit basis.

The costs related to the use of CAATs may include:

- purchasing or developing the programs
- keeping programs up-to-date for changes in hardware and software
- Training audit staff in the use of computer systems to run the CAATs.
- CAATs are of no value unless auditors are properly trained in how to use them.

(Any 3 points @ 2 marks each= 6 marks)

- b) Assertions are used by external auditors to evaluate the financial statements of an entity. These assertions are statements that represent the responsibilities of the management in relation to the financial statements. External auditors use assertions to assess the accuracy and completeness of the financial statements and to determine the level of risk associated with them. The three types of assertions are:

Assertions Relating to Income Statement (Transactions and Events)

- **Occurrence:** The transactions and events that are recorded in the income statement have actually occurred and pertain to the entity.
- **Completeness:** All transactions and events that should have been recorded in the income statement have been recorded.
- **Accuracy:** The amounts and other data relating to the transactions and events recorded in the income statement are accurate.

- **Cut-off:** The transactions and events have been recorded in the correct accounting period.
- **Classification:** The transactions and events have been recorded in the appropriate accounts and are appropriately classified.

(Any 3 points @ 1.33 marks each = 4 marks)

Assertions Relating to Statement of Financial Position

- **Existence:** All assets, liabilities, and equity interests that are recorded on the statement of financial position actually exist.
- **Rights and Obligations:** The entity has legal rights to the assets and the liabilities are legal obligations of the entity.
- **Completeness:** All assets, liabilities, and equity interests that should have been recorded on the statement of financial position have been recorded.
- **Valuation and Allocation:** The assets, liabilities, and equity interests are valued and allocated appropriately in accordance with the applicable accounting standards.
- **Cut-off:** The transactions that impact the statement of financial position have been recorded in the correct accounting period.

(Any 3 points @ 1 marks each = 3 marks)

Assertions Relating to Presentation and Disclosure

- **Occurrence:** The disclosures presented in the financial statements actually occurred and relate to the entity.
- **Completeness:** All disclosures that should have been presented in the financial statements have been presented.
- **Accuracy:** The disclosures presented in the financial statements are accurate.
- **Classification and Understandability:** The disclosures presented in the financial statements are appropriately classified and presented in a clear and understandable manner.
- **Presentation:** The reporting entity asserts that financial information is appropriately presented and necessary disclosures made.

(Any 3 points @ 1 marks each = 3 marks)

External auditors use these assertions to plan and perform audit procedures to evaluate the financial statements and to identify potential risks of material misstatement. By evaluating these assertions, external auditors can provide reasonable assurance that the financial statements are free from material misstatements and that they are in compliance with the applicable accounting standards.

(Total: 20 marks)

QUESTION FOUR

a)

Development

- International Standards on Auditing are set by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).
- ISAs and other documents issued by the IAASB are developed using a process of exposure and consultation in order to obtain consensus and widespread acceptance of standards. Consultation is with interested parties outside the profession, as well as within the profession itself.
- The start of the process of producing an International Standard on Auditing (ISA) is for a subcommittee of the International Audit and Assurance Standard Board (IAASB) to determine appropriate areas for an ISA, or to note where existing ISAs need amendment.
- The subcommittee produces an exposure draft on that subject, initially for consideration by the IAASB. If the IAASB approve the exposure draft, then it is circulated to the member bodies of the International Federation of Accountants (IFAC) and any other organisations that have an interest in auditing standards and published on the IAASB website.
- These bodies make comments on the exposure draft. Comments are sent back to the IAASB and the exposure draft is amended as necessary.
- Finally, the exposure draft is re-issued as an ISA or an International Auditing Practice Statement.

(5 points @ 1 mark each = 5 marks)

Authority of ISAs

- ISAs set out the basic principles and essential procedures that auditors should follow in the conduct of an audit of financial statements.
- ISAs establish the independent auditor's overall responsibilities when conducting an audit in accordance with ISAs
- Each Standard contains objectives and requirements with related guidance which sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives
- ISAs apply to the audits of financial statements that are expressed in "true and fair", "fair presentation", or similar terms. Each of the objectives within a Standard must be considered within the context of the overall objective of the audit as a whole. If an objective cannot be achieved, the auditor must use their judgement to evaluate the impact on their ability to achieve the overall audit objective.
- By their very nature, ISAs require auditors to use their professional judgement when applying them.
- In exceptional circumstances, a professional accountant may judge it necessary to depart from a basic principle or essential procedure of a Standard (and Practice Statement) to achieve more effectively the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.

(5 points @ 1 mark each = 5 marks)

b)

Criteria to be considered when assessing whether to place reliance on internal audit work include the following:

- **Objectivity of function:** The external auditor should consider whom the internal auditors report to and whether they are subject to any conflicting responsibilities, constraints or restrictions. This will affect the capability of the internal auditors to communicate significant matters openly.
- **Scope of function:** The external auditors should consider the extent and nature of assignments performed by the internal auditors and the action taken by management as a result of internal audit reports.
- **Technical Competence:** The external auditors should consider whether the internal auditors have adequate technical training and proficiency.
- **Due professional care:** The external auditors should consider whether the work of internal audit is properly planned, supervised, reviewed and documented.

(5 points @ 1 mark each = 5 marks)

c) **Functions of an internal audit department**

- To review the control system and to identify weaknesses, breakdown and to report to management with recommendations.
- To design checks to reveal the existence of frauds or to prevent frauds.
- To rationalize accounting policies within a group and to design and implement new accounting systems.
- To conduct management efficiency audits and post implementation audits of capital projects.
- To describe key risks facing the business activities within scope of audit and to identify control procedures used to ensure each key risk is properly controlled and monitored
- To develop and execute risk based sampling and testing approach to determine whether most important controls are operating as intended
- To report issues/make recommendations/negotiate action plans with Management to address issues
- To follow up on reported findings periodically

(Any 5 points @ 1 mark each = 5 marks)

(Total: 20 marks)

QUESTION FIVE

a) Auditor's responsibilities concerning the going concern status of companies.

- Auditors are required to consider the going concern status of companies and any disclosures regarding going concern in forming their audit opinion. Companies that are listed on stock exchanges may be required to make additional disclosures in relation to going concern issues.
- Auditors are required to assess the adequacy of the means (the processes) by which directors have satisfied themselves that the going concern basis is appropriate and that adequate disclosures have been made. Auditors conduct an initial analysis at the planning stage of the audit as well as assessments at later stages.
- Auditors should make enquiries of the directors and examine appropriate documentation supporting the company's going concern statuses such as budgets and cash flow forecasts.
- Auditors consider whether the period to which directors have paid particular attention is adequate. This should normally be at least 12 months from the balance sheet date. Auditors also enquire of management as to their knowledge of events or conditions beyond this period that may cast significant doubt on the entity's ability to continue as a going concern.
- Auditors need to consider the appropriateness of assumptions which directors have made, the sensitivity of assumptions to external and internal changes, any obligations, guarantees or undertakings arranged with other entities, the existence and adequacy of borrowing facilities and the directors' plans to deal with any going concern problems.
- Auditors are required to document the extent of any concerns, taking account of matters that have come to their attention during the course of the audit and in particular, financial, operational, or other indicators of going concern problems that are present.
- Indicators of going concern issues would include trading losses, impairment of assets, net liabilities, defaults on loans, liquidity problems, an inability to refinance loans where necessary, fundamental changes in the markets or technology having an adverse effect on the company, loss of management, staff, customers or suppliers, or major litigation, for example.
- Auditors should consider the need to obtain written management representations.

(Any 4 points @ 1 mark each = 4 marks)

b) Three main types of the modified audit report

Qualified opinions: i.e., except for opinions

Auditors give a qualified opinion in an audit report if it is found that the company's financial statements are presented fairly, except in specific areas where there is either a:

- material lack of evidence that is not pervasive;
- material misstatement that is not pervasive.

Disclaimers of opinion

A disclaimer of opinion is a statement made by an auditor that no opinion is being given regarding the financial statements of a client. This occurs where there is a pervasive lack of evidence resulting in auditors being unable to form an opinion, the auditor may not have been allowed or been able to complete all planned audit procedures. Or, the client restricted the scope of the examination to such an extent that the auditor was unable to form an opinion.

Adverse opinions

These are opinions expressed by an auditor indicating that a company's financial statements are misrepresented, misstated, and do not accurately reflect its financial performance and health. This opinion is usually made where there is a pervasive material misstatement, required disclosures do not accompany the financial statements, or if the entity has not prepared its financial statements in conformity with the provisions of the applicable accounting framework.

(1 mark each = 3 marks)

c) Fianso Cannery

There is a material uncertainty that casts significant doubt on Fianso Cannery's going concern status that should be disclosed in the financial statements. The cost of operation is now high as a result of cedi depreciation meaning the importation of the preservatives and containers will be very high which may lead to high selling prices and low sales.

If no disclosure is made, a qualified or adverse opinion is required.

Fianso Cannery probably does not want to disclose the matter because it may give competitors the upper hand in any negotiations for the sale, and it may cause the bank to call in the loan which may put pressure on the company.

(3 marks)

d) Deficiency

No consultation

Observation

The regional procurement managers decide on the inventory levels without consultation with store or sales managers,

Implication

This could result in the head office ordering clothing that is not in demand because the procurement manager does not deal with customers and may not know what they want.

Recommendation

The procurement managers should set inventory levels in collaboration with store managers and the sales managers

Segregation of duties

Observation

There is no segregation of duty. The procurement manager at the head office is the same person who reviews, authorises and places the orders. It will be very difficult to assess whether the correct buying decisions are being made.

Implication

This could result in significant levels of goods being purchased that are not right.

Recommendation

A separate manager should review the inventory prepared for each region and discuss with the regional procurement managers the specifications of their orders.

Lead time

Observation

The lead time is four weeks so a lack of effective communication between the stores and procurement could lead to stock-out and loss of customers.

Implication

This could result in loss of revenue due to stock-out and loss of customers.

Recommendation

Automatic re-order levels should be set up in the inventory management systems. As the goods sold reach the re-order levels, the purchasing manager should receive an automatic re-order request

Goods sent directly to regions

Observation

Suppliers send goods directly to the regions without the head office matching them against the order. Deliveries from suppliers are accepted without being checked by the storekeeper instead they are checked by sales assistants

Implication

The stores receiving the goods might not know whether the correct items are being delivered.

Recommendation

Deliveries from suppliers should be checked at the head office against the purchase order before they are sent to their respective regions and GRN issued. Once checked the order should be logged as completed.

Goods received without checking them against the purchases

Observation

Sales assistants receive goods without checking them against the purchase orders. They also produce the Goods Received Note (GRN) on receipt of a supplier's delivery note which should not be the case. Since it is not their job, they may make

mistakes which could lead to under or overpayments because GRNs are used in the invoice authorisation process.

Implication

The Goods received procedure may lead to significant purchase orders which are outstanding, leading to lost sales as the assistant issue the GRN at their convenience.

The invoice may also be misplaced leading to unsettled payables. This may lead to an understatement of purchases

Recommendation

A responsible official at each store in the regions should produce the GRN from the delivery from the Head office.

Another senior manager should authorise before passing it on to the Procurement Manager for purchase. A copy of the authorised order form should be sent to the store. This should then be checked with the GRN

(Any 2 deficiencies and recommendation under each procedure @ 2.5 marks each = 10 marks)

(Total: 20 marks)

CONCLUSION

Tuition providers did extremely well helping most students to pass. They should keep up the good work and bring above-mentioned weaknesses to the attention of their students by giving them more assignments and conducting more mock examinations to assist them prepare for their subsequent exams.

Candidates are encouraged to make good use of study text and past questions to improve their performance in subsequent examinations.