

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2006 EXAMINATIONS
(PROFESSIONAL)**

**AUDIT AND INTERNAL REVIEW
(Paper 2.6)**

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Auditing can be defined as “the Independent examination of financial statements or related financial information of an entity, whether profit-oriented or not, and irrespective of its size, or legal form, when such an examination is so conducted with a view to expressing an opinion thereon”.

Required:

- (a) Indicate the advantages of an audit to the shareholders of a company. (3 marks)
- (b) State the primary objectives of an audit. (3 marks)
- (c) Explain the inherent limitations of an audit. (4 marks)
- (d) State the process of removal of auditors as provided by Section 135 of Companies Code 1963 (Act 179). (10 marks)

(Total: 20 marks)

QUESTION 2

As auditor of Jonad Stores Ltd, state the audit work that you would carry out in connection with the following balance sheet items:

- (a) Provision for specific doubtful debts ø8 million. (10 marks)
- (b) Debit balances in the creditors ledger totalling ø6.5 million. (10 marks)

(Total: 20 marks)

QUESTION 3

The National Standard on Auditing (NSA) 1 objectives and Basic Principles Governing an Audit (paragraph 26) states:

“The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles of NSA”.

You are required to:

- (a) Briefly describe the main purposes of preparing audit working papers. (7 marks)

- (b) What are the qualities one would expect to find in a properly prepared audit working papers. (7 marks)
- (c) Should an auditor audit immaterial items? Discuss (6 marks)

(Total: 20 marks)

QUESTION 4

You have been appointed as auditor of a furniture manufacturing company. During your audit you collect different varieties of evidence in order to form your opinion on the truth and fairness of the accounts. A selected list of some varieties of evidence is given below:

- a) Witnessing of procedures
- b) Testimony from independent third parties
- c) Satisfactory internal control
- d) Subsequent events
- e) Agreement with expectations

You are required to state under each variety of evidence, four (4) circumstances during the audit of the company where you should apply that variety and briefly indicate why you would require that piece of evidence in each of the circumstances.

(Total: 20 marks)

QUESTION 5

The directors of Tuoabodoum Limited, a newly formed company, have asked you to accept the position of auditor to the company. Their letter states:

“The directors will determine your rights and duties. In general, these duties will conform with the requirements of current company regulation. However, in the event of conflict or exclusion we will indemnify you against any action. The directors also reserve the right to dismiss you without having to inform you of the reasons”.

Required:

- (a) Briefly state the duties of Auditors under the companies Code, 1963 Act 179. (5 marks)
- (b) Outline the rights of auditors under the companies code 1963 (Act 179). (5 marks)

- (c) It is generally accepted that when developing ethical rules for confidentiality, the prime concern of the auditor is to respect the confidentiality of the operations of the client.

In this respect no information acquired during the course of the auditors' work should be revealed or disclosed to a third party without the permission of the client except under certain conditions.

Discuss with examples some circumstances in which the auditor may disclose such information. (5 marks)

- (d) State five (5) functions of an Internal Audit Department. (5 marks)

(Total: 20 marks)