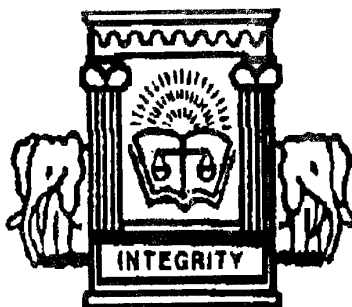


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2006 EXAMINATIONS
(PROFESSIONAL)**

PART 2

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Your firm has recruited new audit staff and as part of their induction programme, you have been asked to lecture the new staff on various topics.

Required:

- (a) Explain the concept of expectation gap and how the gap can be reduced

(10 Marks)

- (b) Describe the process of accepting audit engagements.

(10 Marks)

(Total: 20 Marks)

QUESTION 2

- (a) Explain how auditors are remunerated under the Companies Code 1963 (Act 179).

(5 Marks)

- (b) Explain the following principles and concepts of auditing:

- (i) Audit Risk
- (ii) Systems based audit
- (iii) Rotational testing

(15 Marks)

(Total: 20 Marks)

QUESTION 3

Your client is a manufacturing company which produces both alcoholic beverages and soft drinks. Your firm is preparing the audit of the company's financial statements for the year ended December 2005. During the pre-planning meeting of the staff of the firm, the engagement partner spoke at length on the need to plan properly in order to complete the work in time and at the same time collect sufficient appropriate audit evidence to enable proper audit opinion to be expressed on the financial statements.

Required:

- (a) Explain the inherent limitations of the internal controls on which your firm will rely to reduce detail testing of transactions and balances during the audit.

(5 Marks)

- (b) Explain how the auditor uses analytical review procedures during the planning stage of an audit.

(10 Marks)

- (c) State the factors that will lead the auditor to issue an adverse opinion.

(5 Marks)

(Total: 20 Marks)

QUESTION 4

One of the responsibilities of the directors of a company is to safeguard the assets of the business and in order to discharge this responsibility, it is necessary to have some systems of controls.

Required:

- (a) Outline the main objects of controls over fixed assets

(6 marks)

- (b) State the main aspects of Internal Control which should be in operation in a company to control fixed assets.

(7 Marks)

- (c) Outline the steps necessary to verify the freehold premises of an engineering company, such premises having been extended during the year under review.

(7 Marks)

(Total: 20 Marks)

QUESTION 5

Auditors are engaged to audit financial statements. As an Audit Senior in a firm of Chartered Accountants, you have been asked by the graduating class of the University of Ghana Business School to share your practical experience on the audit of financial statements with them.

Required:

- (a) Outline the objectives and tests needed to audit salaries and wages.

(10 Marks)

- (b) State the contents of the permanent audit file.

(10 marks)

(Total: 20 Marks)