

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



**NOVEMBER 2008 EXAMINATIONS
(PROFESSIONAL)**

PART 2

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

- a) At a recent meeting of the board members of Asempa Ne Ye Ltd it was argued out that managers should rather report to shareholders instead of independent auditors reporting to them.

Required:

- i) State how the credibility of the reports and accounts may be affected when managers report to shareholders.

(7 marks)

- ii) State the advantages of an audit to shareholders.

(3 marks)

- b) One of the techniques of obtaining audit evidence is by means of observation.

Required:

Discuss the quality of audit evidence obtained by observation giving **three (3)** examples of when the technique might be used.

(10 marks)

Total: 20 marks

QUESTION 2

- a) A payroll system involves the following categories:
- Engagements, promotions, transfers and discharging of employees.
 - Time attendance and job recording.
 - Preparation of payroll and analysis of wages and salaries.

Required:

- i) State the risk associated with a payroll system. *(8 marks)*
- ii) Indicate the controls to be put in place when employees are paid by cash. *(9 marks)*
- b) State the objectives of putting in controls over cash system. *(3 marks)*

Total: 20 marks

QUESTION 3

Bobo Azubu a newly qualified accountant was engaged by the Chief Executive Officer of ZoomTigers Ltd to set up its internal audit department. The Chief Executive Officer has offered his house at Adenta to Bobo Azubu to occupy without paying any rent. A board member of ZoomTigers Ltd, on hearing the offer made to Bobo Azubu by the chief Executive Officer, objected to this arrangement.

Required:

- (a) Explain each of the **five (5)** fundamental principles of The Institute of Chartered Accountants (Ghana) Code of Ethics and Conduct. *(5 marks)*
- (b) Explain the issues which limit the independence of the internal audit department in ZoomTigers Ltd and recommend a way of overcoming each issue. *(10 marks)*
- (c) Explain the concept of ‘auditing around the computer’ and state why this method increases audit risk. *(5 marks)*

Total: 20 marks

QUESTION 4

- a) SFA Company Ltd, a manufacturing company, is an established audit client of your firm.

You have been selected to lead an audit team to carry out the final audit of SFA Company Ltd's 2007 financial statements.

You are required as part of the audit to outline what your team will do to vouch or verify the following:

- i) Capital work-in-progress.
- ii) Wages paid to seasonal labourers.

(14 marks)

- b) It is an established practice during the course of audit of a company's financial statements for a management letter to be issued by the auditors.

You are required to:

Explain the nature and purpose of a management letter, and state when and to whom it should be issued.

(6 marks)

Total: 20 marks

QUESTION 5

- a) State the procedures you will adopt when verifying bank balances

(10 marks)

- b) If, at the planning stage of an audit, the auditor intends to use the work of an expert, he should communicate with the expert.

Required:

Indicate the matters the auditor would like to include in such communication.

(10 marks)

Total: 20 marks