

# Implementing Audit Procedures (International Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 13 DECEMBER 2004

**QUESTION PAPER**

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Time allowed **3 hours**

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ALL FOUR questions are compulsory and **MUST** be answered

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**Do not open this paper until instructed by the supervisor**

**This question paper must not be removed from the examination hall**

The Association of Chartered Certified Accountants

Paper T8(INT)



**ALL FOUR questions are compulsory and MUST be attempted**

**1** Opiniol is a limited liability company which carries out public opinion surveys.

The company employs an interviews manager to control 40 interviewers who conduct interviews with members of the public at random. The interviewers are paid monthly in arrears for hours worked, with hourly rates and productivity bonus payments being dependent on surveys undertaken. They submit their monthly time sheets to the company's head office for processing and the company operates a separate monthly payroll specifically for interviewers' wages.

The company's wages software program produces on request:

1. A master file update report – detailing the update report number, the amendments made since the last report, and the number of existing employees on file.
2. A current period payment details report – showing gross payment, deductions and net payment amounts – by employee and in total.
3. Wage slips – the computerised production of which is requested only after other control procedures employed have ensured that information provided on the current period payment details report (above) is in agreement with a hash total representing gross wages input.

The interviews manager is based at the company's head office, together with the accounting and administration departments. He is responsible for the recruitment of interviewers, deployment to assignments, overseeing of interview work and for the authorisation of pay rates and bonus payments.

The company has a good control environment including appropriate segregation of duties throughout the specific areas of the business. Head office employees include a company accountant, a wages supervisor and three wages clerks.

**Required:**

- (a) **State FOUR objectives of the internal controls that should be exercised over a wages system.** (4 marks)
- (b) **State the internal control procedures that Opiniol should adopt over the updating of its wages master file with regard to interviewer starters and leavers.** (9 marks)
- (c) **State the internal control procedures that Opiniol should adopt over the completion and authorisation of, and the computer processing of interviewers' time sheets, prior to the request being made for the production of the monthly computerised wage slips.** (12 marks)

**(25 marks)**

2 The directors of Wizzin have asked your firm to quote for the appointment as the company's new auditors. The next financial statements due for audit will be those for the year ending 31 March 2005 and from discussions with the directors your firm's audit engagement partner has ascertained the following information:

1. Wizzin is a long established, limited liability company, trading as builders' merchants. Owing to a large influx of competitors into the market place, the company has had declining profits in recent years, although the directors appear not to be unduly concerned about the company's ongoing trading.
2. The company operates from 14 sites around the country. All sites comprise a shop and a yard with the largest site also accommodating the company's head office. In order to attract new customers all of the shops have recently undergone major repair and refurbishment programmes. The costs of these programmes were substantial and have been financed by bank borrowing.
3. Each site sells a wide range of products including timber and consumable materials, decorating and general building products. Ranges of tools and equipment are also available both for sale and for short-term hire, whilst very large stockpiles of sand and gravel are kept in each yard to meet customer demand.
4. A cash sales policy applies to most customers, but where credit terms are granted, customers may either collect goods directly or take advantage of the company's delivery service.
5. Wizzin owns a large volume of mobile plant and machinery to service its yard and delivery operations. These include mechanical shovels, dumper trucks, lorries and vans.
6. Each site is open throughout the year, closing only for public holidays. Consequently 18 full-time shop and yard staff are employed at each site together with varying numbers of part-time and temporary employees.

**Required:**

- (a) **Describe THREE matters the audit engagement partner of your firm should consider before deciding whether to quote for the appointment as auditors to Wizzin.** (9 marks)
- (b) **State with reasons FIVE factors that would affect the initial assessment of inherent risk associated with the audit of the financial statements of Wizzin.** (16 marks)

**(25 marks)**

3 (a) **Required:**

**Explain what is meant by the term 'audit evidence' and state what it comprises.** (3 marks)

(b) An auditor may obtain audit evidence by one or more of the following procedures:

- (1) Inspection
- (2) Observation
- (3) Recalculation
- (4) Analytical Procedures

**Required:**

- (i) **Explain what each of these procedures involves.** (6 marks)
- (ii) **For each procedure provide TWO examples of its use during the course of an audit stating clearly in each example the purpose of carrying out the procedure.** (16 marks)

**(25 marks)**

- 4 Whilst there is a difference between the roles of internal auditors and external (registered) auditors, they often liaise on various matters and a Chartered Certified Accountant employed in either capacity has an obligation to adhere to the Fundamental Principles of the Code of ethics as set out in ACCA's Rules of Professional Conduct.

**Required:**

- (a) (i) **Contrast the objectives and scope of an internal auditor's work for a limited liability company with that of an external (registered) auditor auditing its financial statements.** (5 marks)
- (ii) **Discuss the extent to which each should be expected to detect fraud.** (4 marks)
- (b) **Explain FOUR matters that external auditors should consider when evaluating and testing work carried out by internal auditors with a view to relying on it to reduce their own work.** (8 marks)
- (c) **State FOUR of the fundamental principles of ACCA's Code of ethics.** (8 marks)

**(25 marks)**

**End of Question Paper**