

Implementing Audit Procedures (International Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 11 JUNE 2007

QUESTION PAPER

Time allowed **3 hours**

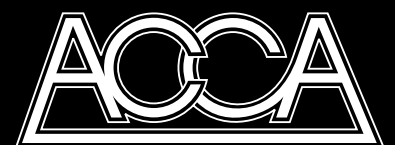
ALL FOUR questions are compulsory and **MUST** be answered

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** Olive Co is a large electrical goods wholesaler operating from a warehouse with a goods received area, and administration, purchasing and accounts departments. Your firm will audit the company's financial statements for the year ending 31 July 2007.

You have been assigned to the audit of the purchases and trade payables function of Olive Co and are now familiarising yourself with this prior to commencing the audit work. In discussions with your audit manager, he confirmed that Olive Co uses a batch control system when processing trade payables invoices and that the company has a strong control environment.

Required:

- (a) (i) **Explain the term 'control environment'.** (5 marks)
- (ii) **Describe the effect that a strong control environment in Olive Co should have on your firm's approach to the audit of the company's financial statements for the year ending 31 July 2007.** (5 marks)
- (b) **State THREE objectives of the internal control that should be exercised over a purchases and trade payables system.** (3 marks)
- (c) **With regard to the purchase of electrical goods by Olive Co, state the control activities that should exist over:**
- (i) **Ordering of goods;**
- (ii) **Receipt of goods;**
- (iii) **Receipt and authorisation of supplier invoices prior to batch processing.**

Note: Your answer should describe any appropriate documentation and related controls. (12 marks)

(25 marks)

- 2 Palm Co is a manufacturing company preparing its annual financial statements to 31 August. It is a longstanding audit client of your firm and since September 2006 it has increased its level of operations significantly, having recently opened a second factory in order to meet production demand. As a consequence of the growth in operations, the company's internal control system and control activities have changed as compared to the previous year. The company relies on a year end inventory count as a basis for valuing inventories for inclusion in its financial statements. It also uses a bank overdraft facility which is secured on its assets.

Your audit manager has asked you to suggest the general planning matters, together with any special matters in the case of Palm Co, that should be considered when planning the audit of the company's financial statements for the year ending 31 August 2007. He has also asked you to consider the various methods by which your firm can record the company's system of internal control, and also to consider how your firm may use Internal Control Questionnaires (ICQs) and Internal Control Evaluation Questionnaires (ICEQs) in the audit process.

Required:

- (a) **Identify and explain FOUR matters that your audit firm should consider when planning the audit of the financial statements of Palm Co for the year ending 31 August 2007.**

Note: Your answer should include matters specific to the company as well as general matters. (10 marks)

- (b) **State THREE methods by which your firm may record the internal control system of Palm Co.** (3 marks)

- (c) **Explain how an Internal Control Questionnaire (ICQ) differs in nature and design from an Internal Control Evaluation Questionnaire (ICEQ).** (6 marks)

- (d) **List FOUR key questions that should be included on an ICEQ relating to the purchases and trade payables system of Palm Co.** (6 marks)

(25 marks)

- 3 Ash Co is a small engineering company with 14 employees and has recently appointed your firm as its auditors. You attended the company's year end inventory count on 31 May 2007 and ascertained that the company had a material amount of work-in-progress. Now, you are preparing to carry out the detailed audit work on the company's financial statements to 31 May 2007.

Two junior members of the audit team have asked you to explain the process for obtaining audit evidence. They are aware of ISA 500 *Audit Evidence*, and want to know the factors that will influence your firm's judgement in deciding what will be sufficient appropriate evidence when auditing the financial statements of Ash Co. They are also unsure about the specific procedures your firm will use to obtain audit evidence.

Required:

- (a) **State THREE factors that generally influence an auditor's judgement in deciding what will be sufficient appropriate evidence, commenting on their relevance to your firm's audit of Ash Co.** (6 marks)

- (b) **Describe each of the procedures listed below, used to obtain audit evidence, and for each procedure give TWO examples of when it may be used during the audit of the financial statements of Ash Co.**

(i) **Observation;** (4 marks)

(ii) **Inquiry;** (5 marks)

(iii) **Confirmation;** (5 marks)

(iv) **Reperformance.** (5 marks)

(25 marks)

4 Beech Co is a computer software design company. Its directors recently approached the audit engagement partner of Oaks & Co, an audit firm, to appoint the firm as the company's new auditors. At a brief meeting between the directors and the partner, the formalities of the audit appointment process, including a letter of engagement and auditors' rights were discussed. The partner is now about to commence his client screening procedures with regard to Beech Co.

Required:

- (a) (i) Explain the purpose of carrying out client screening procedures. (4 marks)
- (ii) State SIX matters that the audit engagement partner of Oaks & Co should consider when screening Beech Co. (9 marks)
- (b) (i) Explain the purpose of a letter of engagement. (3 marks)
- (ii) State FIVE important matters that should be included in a letter of engagement. (5 marks)
- (c) State the rights that the new auditors of Beech Co should have with regard to:
- (i) Access to records;
- (ii) Information and explanations. (4 marks)

(25 marks)

End of Question Paper