

Certified Accounting Technician Examination
Advanced Level

Implementing Audit Procedures (International Stream)

Monday 9 June 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FOUR questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet 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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

ALL FOUR questions are compulsory and MUST be attempted

- 1 Peach Co is a manufacturing company employing 190 production employees, all of whom are paid through the company's monthly wages system by bank credit transfer. The following controls are exercised over the system, with regard to the recruitment and payment of employees.
- (1) Potential employees are interviewed by the production manager who forwards the details of successful candidates, the job title and the rate of pay to the company's personnel manager for an employment offer to be made.
 - (2) On receipt of acceptance of an employment offer, the personnel manager forwards written details of the employee to the wages department. A wages clerk then immediately updates the wages master file with details of the future employee, including rate of pay, standard hours of employment and the employee's bank details.
 - (3) Employees are paid an hourly rate on the basis of time worked. In this regard the company operates a swipe card time recording system, operated by employees with individual uniquely coded swipe cards. On the first day of their employment, the production manager issues a swipe card to employees and updates the time recording unit master file with the new employee details.
 - (4) Employees work a standard five-day week. Each day, employees register their arrival and departure by swiping their card through one of ten un-monitored entry/exit terminals. The terminals are connected to the time recording unit, which produces weekly and monthly summaries of employees' attendance records.
 - (5) The production manager has 'amend' and 'download' remote access to the time recording unit enabling him to read recorded data via his desktop computer, amend as required and then download hard copies of the information via his desktop printer. On a weekly basis, the production manager checks the hours worked for each employee and updates the electronic data file record for each employee with any appropriate amendments, including those for holiday and sickness entitlements. The time recording unit is programmed to provide a monthly summary of hours, only after the production manager has confirmed that all the required amendments have been entered.
 - (6) The wages manager has 'read' and 'download' remote access to the data stored in the time recording unit. On a monthly basis, he downloads hard copies of the weekly and monthly summaries to his desktop printer. He then files the summaries and passes a copy of the monthly hours summary to a wages clerk for the input of hours into, and the running of, the monthly wages programme.
 - (7) On completion of processing, prior to the update and closure of the programme, the following printouts are provided:
 - (i) Monthly wages summary. Showing, by employee and in total: hours paid, hourly rate, gross pay, statutory deductions, other deductions and net pay.
 - (ii) Monthly bank credit transfer payments summary. Showing relevant bank account details for each employee and payments due.
 - (iii) Monthly statutory deductions and other deductions summary. Showing deductions by category and payment instruction details.
 - (8) The wages manager then scrutinises all summaries for completeness and accuracy of processing and investigates any apparent discrepancies. After satisfactory completion, a wages clerk then updates and closes the wages programme. All summaries are then filed chronologically by the wages manager, who then passes a signed approved copy of the 'bank credit' payments summary to the company's cashier. The cashier then immediately instructs the company's bank to make the relevant payments.

Required:

- (a) State FIVE objectives of the internal controls that should be exercised over a wages system. (5 marks)
- (b) State FOUR internal controls that should be exercised over the data contained in the wages master file of a company. (4 marks)
- (c) With regard to the wages system of Peach Co:
- (i) Identify FOUR weaknesses in the system; (4 marks)
 - (ii) Describe the implication of each weakness identified; (6 marks)
 - (iii) Recommend improvements to address the weaknesses. (6 marks)

Note: you should assume that there are a sufficient number of employees at appropriate levels to operate effective controls.

(25 marks)

- 2 In April 2008 your firm was appointed as auditors to Plum Co, a company operating three large garden centres within close proximity of each other. The company is long established, has an excellent control environment and a good system of internal controls. Its central administration and accounts departments are located at one of its garden centre sites and it prepares annual financial statements to 31 October.

The directors of Plum Co have decided to update the company's old computer-based accounting system with a more efficient system, incorporating superior application controls over the input and processing of data. Consequently, several accounts department employees will be made redundant whilst the tasks of other employees will change.

The company would prefer to go 'live' with the new system on 1 September 2008. However the directors are unsure of the effect, if any, that such a change would have on your firm's audit of the company's financial statements for the year ending 31 October 2008. If changing to the new system on the preferred date would have anything other than a minor impact on your firm's audit procedures, then the directors are prepared to bring forward or delay the implementation to a more convenient date. They are aware that your firm uses computer assisted audit techniques and that its existing audit software is compatible with the old system.

Required:

- (a) (i) **List and describe THREE categories of application controls over the input and processing of data, which should be incorporated in the new computer-based accounting system of Plum Co; and** (6 marks)
- (ii) **For each application control listed provide an example of its use.** (3 marks)
- (b) **Explain the effect that an implementation date of 1 September 2008 for the new accounting system would have on your firm's audit of Plum Co's financial statements for the year ending 31 October 2008, as compared to an earlier or later implementation date.** (5 marks)
- (c) The following additional information is pertinent to the audit of Plum Co's financial statements:
- (1) Each garden centre is open to the public throughout the year selling a comprehensive range of fertilisers, seeds, plants, shrubs and flowers. Additional product ranges comprise gardening tools and equipment; garden furniture and landscaping features.
 - (2) Supplies of goods for re-sale are procured from various suppliers. However, large quantities of plants, shrubs and flowers are grown within the centres. Supplies are often transferred between centres to replenish low levels of fast selling inventory lines.
 - (3) There are three gardening assistants at each garden centre, who work solely on the cultivation and maintenance of plants, shrubs and flowers prior to sale.
 - (4) At each centre there is a large uncovered compound within which plants, shrubs and flowers are grown and displayed alongside other products. There is also a shop displaying retail products and housing the cashiering point and a busy café area.
 - (5) Plum Co also operates as a landscape gardening contractor and employs its own workforce of 40 full-time employees, in addition to numerous sub-contractors in this regard. The company has an excellent reputation for the quality of its landscaping and consequently it often contracts to work on large projects of up to 18 months duration.

Required:

Identify the inherent risks associated with ascertaining the quantity and value of inventory (including work in progress), to be reported in the financial statements of Plum Co for the year ending 31 October 2008. (11 marks)

(25 marks)

- 3** Pear Co is a long established building renovations company and prepares its annual financial statements to 30 April. The financial statements for the year ended 30 April 2008 revealed the following items, together with comparatives for the previous year.

Item	30 April 2008 \$	30 April 2007 \$
Irrecoverable Debts	56,000	18,900
Trade Payables	315,000	205,200
Accruals	37,800	63,000
Provision	81,000	–

The provision of \$81,000 relates to a legal obligation to carry out repairs to a public building damaged by employees of Pear Co when renovating an adjoining building. The company's reported pre-tax profit for the year ended 30 April 2008 was \$990,000.

Required:

- (a) For each of the items set out above, list **FIVE** substantive procedures that the auditor of Pear Co should carry out to verify the completeness and valuation assertions contained in the financial statements of Pear Co for the year ended 30 April 2008. (20 marks)
- (b) (i) Explain why an auditor may decide **NOT** to carry out a circularisation of trade payables; and (3 marks)
- (ii) Identify **TWO** situations when such a circularisation may be deemed appropriate. (2 marks)
- (25 marks)**

- 4 (a) Review procedures form an important part of the audit process and audit firms may employ more than one method of review. Review types include:
- (1) 'Hot' Reviews
 - (2) 'Cold' Reviews.

Required:

- (i) Explain the purpose of an audit review. (5 marks)
- (ii) For each of the review types listed above, state when and by whom it should be carried out and state what should be gained from a thorough review. (6 marks)

- (b) When determining whether the financial statements of a company give a 'true and fair view', an auditor should consider various factors. These include:

- (1) Materiality
- (2) Generally Accepted Accounting Principles and International Financial Reporting Standards
- (3) Objectivity
- (4) Disclosure.

Required:

For THREE of the factors listed above, explain its relevance to the auditor when determining whether the financial statements of a company give a true and fair view. (9 marks)

- (c) When an audit firm is in disagreement with management and is therefore unable to express an unqualified opinion as to whether the financial statements of a company give a true and fair view, it may opt to express a qualified opinion or an adverse opinion in its report on the financial statements.

Required:

Describe the circumstances, when due to disagreement, an audit firm should express:

- (i) a qualified opinion;
- (ii) an adverse opinion;

in its report on the financial statements of a company. (5 marks)

(25 marks)

End of Question Paper