

AUDITING

Professional 1 examination 11 June 1999

From 2.00 pm to 5.00 pm,
plus ten minutes reading time from 1.50 pm to 2.00 pm.

Instructions to candidates

Answer four questions in total. Each question carries 25 marks.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

1

Public auditors have served the public for over 600 years. Prime Minister William Gladstone, 140 years ago, recognised the importance of public audit in terms of an 'independent scrutiny of public sector finances'. Changes in the nature and expectations of the public sector have, over the years, altered the role of the public sector auditor. This has resulted in the public sector auditor having a wider role to play than their private sector counterpart.

- **Requirement for question 1**

- (a) Outline and describe the changes that have occurred during the last 20 years that have affected auditing within the public sector. 7
- (b) Discuss and explain the different audit emphasis within the public sector, as compared to that of the private sector. 9
- (c) There are four audit agencies within the UK with specific responsibilities for auditing Central Government, NHS, Local Government, and Police Authorities. Identify the relevant audit agencies that have specific responsibilities for auditing each of these sectors and discuss what the launch of the Public Audit Forum in October 1998 means for the public sector. 9

(25)

2

The concept of Compulsory Competitive Tendering (CCT) was introduced into local government in an effort to encourage a more effective use of limited resources. This is now to be replaced with the 'Best Value' concept which aims at shifting the emphasis from the service providers to the service users. As an introductory approach a number of local authorities are currently involved with pilot schemes.

- **Requirement for question 2**

(a) Define what is meant by the Best Value concept, and explain the 12 points outlined by the government for Best Value. 13

(b) Best Value will in future replace the Compulsory Competitive Tendering concept. What are the main differences between CCT and Best Value and outline the role that the external auditor will have in auditing Best Value. 7

(c) How will local authorities be able to account for their adherence to the policies of Best Value? 5

(25)

3

Your public sector organisation has recently out-sourced its payroll system. The payroll is now undertaken by Payfast, a firm specialising entirely in computerised accounting systems, for the payment of salaries and wages. Your agreement with the firm allows your organisation to undertake an integrated audit of the payroll information supplied by your organisation to Payfast, and a periodic review of the systems employed by Payfast prior to the re-negotiation of the agreement every two years.

- **Requirement for question 3**

- (a) Detail what you consider to be the key control objectives for a payroll system. 5
- (b) Describe the control features that you would expect to exist within your organisation for the preparation of salaries and wages information prior to its transfer to Payfast. 7
- (c) What audit tests would you undertake on Payfast's computerised payroll system? 6
- (d) Identify the main audit problems that arise when a system is computerised. 3
- (e) When the agreement is subject to re-negotiation in two years time, what issues would you want discussed from an audit viewpoint? 4

(25)

4

A chief officer within a neighbouring organisation has been subject to fraud investigations in respect of revenue contract letting irregularities. A few of the contractors identified in the investigation have also been involved with supplying services to your organisation. As auditor with specific responsibilities for the letting of revenue contracts, you have been asked to investigate any possible irregularities that may exist within your organisation.

- **Requirement for question 4**

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| (a) Outline the controls that should be in place for the tendering and the letting of contracts. | 7 |
| (b) In addition to having the appropriate procedures for the letting of contracts, what policies would you expect to see in operation for the protection of personnel involved in contract issues? | 3 |
| (c) During the course of your investigations you have cause to suspect an employee of perpetrating a fraud. Describe what actions need to be taken and considered. | 8 |
| (d) During the review you need to interview certain personnel in respect of their work. What are the recommended procedures to follow when undertaking fact-finding interviews? | 7 |

(25)

5

In order to combat the potential problems of the Millennium Bug, your employer, The Internal Audit Agency for the Eastern Regions Health Consortium, has decided to introduce a new integrated system for its four divisional offices. This new integrated system will enable its auditors to make full use of the benefits of computerised audit facilities. The four divisional offices will have a local area network, all state of the art CAAT's packages, as well as a link to the Internet.

- **Requirement for question 5**

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| (a) | Describe the usefulness of using a CAAT package such as IDEA for the auditor, especially in detecting fraud. Illustrate your answer with appropriate examples. | 6 |
| (b) | What controls would you expect to exist on an individual PC? | 5 |
| (c) | Discuss the merits of having a proactive, or a 'pre event', audit involvement in the systems development process within other departments. | 10 |
| (d) | What controls would you expect to find within the Internal Audit Agency's own computerised auditing system? | 4 |
| (25) | | |