

AUDITING

Professional 1 examination 9 June 2000

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. The marks available for each question are shown in italics in the right-hand margin.*

1

You have just been appointed chief internal auditor of Redtown Borough Council. Shortly after your appointment you discover that the scheduled audit work is taking significantly longer than is planned, while a large fraud investigation has also added to delays in the section's work. A systems-based audit approach was used by your predecessor when preparing the annual audit plan.

- **Requirement for question 1**

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|-----|---|---|
| (a) | Explain the factors to be taken into account in determining the number of days scheduled for a systems-based audit. | 6 |
| (b) | Detail the measures you would take as a manager to ensure audit assignments run to time. | 6 |
| (c) | List the key items that an audit manager will look for in reviewing an audit working paper file (also known as the 'current file') for a systems-based audit. | 8 |
| (d) | Explain the steps you would take in managing the documentation and other evidence involved in a fraud investigation. | 5 |

(25)

2

Two years ago a University of which you are the external audit manager began to provide services to other public sector organisations on a trading basis. Key figures extracted from the accounts of the subsidiary trading company for the last two years are as follows:

	Last year	Current year
	£000	£000
Sales	2,500	4,000
Debtors	200	800
Profits	100	300

• **Requirement for question 2**

- (a) Conduct a brief analytical review using the above figures and explain the conclusions you draw from it. 6
- (b) Draw up an audit programme containing compliance and substantive tests for an audit of debtors on the balance sheet by the external auditor. 9
- (c) Consider briefly the advantages and disadvantages of circularising debtors as a means of gathering audit evidence. 4
- (d) Explain what is meant by Monetary Unit Sampling (MUS) and how it might be applied to the audit of debtor balances. 6

(25)

3

You are an internal auditor employed by an NHS Trust. During the audit of a hospital cash office you become aware that a significant amount of cash is missing from the hospital cash floats.

Your investigations reveal that the cashier, who has sole control of the receipting and storage of cash, has a previous conviction for theft.

- **Requirement for question 3**

- | | |
|---|---|
| (a) Describe the controls that you would expect an organisation to have which receives and stores large amounts of cash. | 6 |
| (b) Consider audit recommendations that you might make to help reduce the amounts of cash being held and thus minimise the risk of theft. | 5 |
| (c) Explain the steps you would take in beginning an investigation into the cashier's possible theft of the cash. | 8 |
| (d) Show how your answer to (c) would differ if your suspicions were that a hospital manager had taken bribes from suppliers in exchange for contracts to supply The Trust. | 6 |

(25)

4

You are a recently appointed audit manager in a firm of chartered accountants who are expanding their portfolio of public sector clients. The senior partner has asked you to prepare a report for him contrasting the relative degrees of regulation of internal and external audit within the public sector.

- **Requirement for question 4**

You are required to prepare the above report and to illustrate your answer with examples from as many parts of the public sector as possible. You should detail the relevant law and regulations and clearly express your conclusions on this topic.

The marks will be awarded as follows:

Format, introduction and conclusion	9
Issues relating to the external auditor	8
Issues relating to the internal auditor	8
	(25)

5

Your organisation has recently announced that it is to implement a new computerised financial system. You are one of its internal auditors and your manager has asked you to prepare some notes for a meeting he will be attending shortly with the project manager.

- **Requirement for question 5**

- (a) Advise the manager on how a good fact finding interview should be conducted. 8
- (b) Explain the advantages and disadvantages of internal audit's involvement in implementing a system under development and the questions he/she asks at each stage of the implementation. 11
- (c) Discuss the advantages of using audit interrogation software. 6

(25)