



THE COUNCIL OF COMMUNITY COLLEGES OF JAMAICA
BACHELOR OF SCIENCE EXAMINATION
SEMESTER I – 2017 DECEMBER

PROGRAMME: BUSINESS STUDIES
COURSE NAME: AUDITING
CODE: ACCT4702
YEAR GROUP: FOUR
DATE: TUESDAY, 2017 DECEMBER 12
TIME: 12:00 NOON – 2:00 P.M.
DURATION: 2 HOURS
EXAMINATION TYPE: FINAL

This Examination paper has 8 pages

INSTRUCTIONS:

- 1. THIS EXAMINATION PAPER CONSISTS OF TWO (2) SECTIONS: (A) AND (B)**
- 2. ANSWER ALL QUESTIONS FROM SECTION A**
- 3. SECTION B CONSISTS OF FOUR (4) QUESTIONS. CHOOSE ANY TWO (2)**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO

SECTION A

Instructions: Answer ALL questions in this section.

You are the audit manager of Coopers & Co and you are planning the audit of HLT Company which is an insurance company and has been an audit client for four years.

During the planning stage of the audit you have obtained the following information:

The audit senior at Coopers & Co had worked as the financial controller at HTL for the last three months in the financial year that is to be audited. The audit partner has recommended that the audit senior works on the audit as he has a good knowledge of the client.

Income derived from auditing HTL company has been outstanding from the last two engagements

HTL subsidizes the cost of the annual staff dinner held by Coopers & Company. They have been doing this for the last two years and according to the audit partner, the company is very appreciative.

Jose Martinez is a CA, but not a partner, with three years of professional experience with Coopers. He owns 50 shares in HLT company, but he does not take part in audit of HTL and the amount of stock is immaterial to the total value of his wealth.

- A. Briefly explain FIVE (5) principles of professional ethics for the auditor. **(10 marks)**
- B. Each of the situations identified above by the audit manager involves a possible violation of the ICAJ code of ethics. For each situation:
- i. Decide whether the code has been violated.
 - ii. Briefly explain how the situation violates or does not violate the code. **(8 marks)**
- C. After accepting an engagement, a CA firm discovers that the client's industry is more technical than he realized and that he is not competent in certain areas of the operations. What are the CA's options? **(2 marks)**

(Total 20 marks)

END OF SECTION A

SECTION B

Instructions: Answer any TWO (2) questions from this section.

Question 1

A system of internal control is designed to provide management with reasonable assurance that the company achieves its objectives and goals.

- A. Describe the **THREE (3)** broad objectives management has when designing effective internal control. *(9 marks)*
- B. Control activities are the policies and procedures that help to ensure that necessary actions are taken to address risks in the achievement of the entity's objectives. There are five categories of control activities.

State the **FIVE (5)** categories of control activities. *(5 marks)*

- C. Each of the following internal controls has been taken from standard questionnaire used by an auditor for assessing control risk in the payroll and purchasing cycle.

For each internal control, identify the type(s) of specific control activity (activities) to which it applies. *(10 marks)*

- i. Approval of department head or foreman on time card is required before preparing payroll.
- ii. All pre-numbered time cards are accounted for before beginning data entry for preparation of cheques.
- iii. The payroll accounting software will not accept data input for an employee number not contained in the employee master file.
- iv. Persons preparing payroll do not perform other payroll duties.
- v. The computer calculates gross and net pay based on hours inputted and information in employee master files, and payroll accounting personnel double check the mathematical accuracy on a test basis.
- vi. All voided and spoiled payroll cheques are properly mutilated and retained.
- vii. Human resources policies require an investigation of an employment application from new employees. Investigation includes checking the employee's background, former employers and references.

- viii. Written termination notices, with properly documented reasons for termination, and approval of an approval of an appropriate official are required.
 - ix. All cheques not distributed to employees are returned to the treasurer for safekeeping.
 - x. Online ability to add employees or change pay rates to the payroll master data file is restricted via passwords to authorised human resource personnel.
- D. Discuss **THREE (3)** inherent limitations of internal control. **(6 marks)**

(Total 30 marks)

Question 2

- A. DDJ is about to conduct the annual audit of a client. The audit manager has started to prepare for the audit plan.

Outline the **EIGHT (8)** major steps in audit planning. **(8 marks)**

- B. What are the purposes of performing preliminary analytical procedures in audit planning, and what type of comparisons are useful when performing analytical procedures? **(7 marks)**

Auditors deal with risk in planning audit evidence primarily by applying the audit risk model. This model helps the auditor decide how much and what type of evidence to accumulate.

The following three situations involve the audit risk model as it is used for planning audit evidence.

	Situation		
Risk	1	2	3
Acceptable audit risk	5%	5%	1%
Inherent risk	60%	20%	100%
Control risk	40%	30%	100%
Planned detection risk	-	-	-

- C. Explain briefly the meaning of the **FOUR (4)** types of risks found in the table above. **(8 marks)**
- D. Calculate planned detection risk for each situation. **(3 marks)**
- E. Which situation requires the greatest amount of evidence, and which requires the least? **(4 marks)**

(Total 30 marks)

Question 3

Beautiful Designs Ltd assembles fridges, microwaves, washing machines and other similar domestic appliances from parts procured from a large number of suppliers. As part of the interim audit work two weeks prior to the company year-end, you are testing the procurement and purchases systems and attending the inventory count.

Procurement and purchases system

Parts inventory is monitored by the store's manager. When the quantity of a particular part falls below re-order level, an e-mail is sent to the procurement department detailing the part required and the quantity to order. A copy of the e-mail is filed on the store manager's computer.

Staff in the procurement department check the e-mail, allocates the order to an authorized supplier and send the order to that supplier using Electronic Data Interchange (EDI). A copy of the EDI order is filed in the order database by the computer system. The order is identified by a unique order number.

When goods are received at Beautiful Designs, the stores clerk confirms that the inventory agrees to the delivery note and checks the order database to ensure that the inventory were in fact ordered by Beautiful Designs. (Delivery is refused where goods do not have a delivery note.)

The order in the order database is updated to confirm receipt of goods, and the perpetual inventory system updated to show the receipt of inventory. The physical goods are added to the parts store and the paper delivery note is stamped with the order number and is filed in the goods inwards department.

The supplier sends a purchase invoice to Beautiful Designs using EDI; invoices are automatically routed to the accounts department. On receipt of the invoice, the accounts clerk checks the order database, matches the invoice details with the database and updates the database to confirm receipt of invoice. The invoice is added to the purchases database, where the purchase day book (PDB) and suppliers' individual account in the payables ledger are automatically updated.

Required:

- A. List **SIX (6)** audit procedures that an auditor would normally carry out on the purchases system at Beautiful Designs Limited. Explaining the reason for each procedure. *(12 marks)*
- B. List **THREE (3)** audit procedures that an auditor will normally perform prior to attending the client's premises on the day of the inventory count. *(3 marks)*

On the day of the inventory count, you attended and observed the following activities:

- i. Pre-numbered count sheets were being issued to client's staff carrying out the count. The count sheets showed the inventory ledger balances for checking against physical inventory.
- ii. All count staff were drawn from the inventory warehouse and were counting in teams of two.
- iii. Three counting teams were allocated to each area of the stores to count, although the teams were allowed to decide which pair of staff counted which inventory within each area. Staffs were warned that they had to remember which inventory had been counted.
- iv. Information was recorded on the count sheets in pencil, so amendments could be made easily as required.
- v. Any inventory not located on the pre-numbered inventory sheets was recorded on separate inventory sheets – which were numbered by staff as they were used.
- vi. At the end of the count, all count sheets were collected and the numeric sequence of the sheets checked; the sheets were not signed.

Required:

- C. List **FIVE (5)** weaknesses in the control system for counting inventory. **(5 marks)**
- D. For each weakness, explain why it is considered a weakness and state how that weakness can be overcome. **(10 marks)**

(Total 30 marks)

Question 4

- A. State the aim of a test of control and the aim of a substantive procedure. *(2 marks)*
- B. There are three conditions requiring a departure from an unqualified audit report. Briefly state these **THREE (3)** conditions. *(6 marks)*
- C. The standard unqualified audit report is issued when five conditions have been met. Outline the **FIVE (5)** conditions under which a standard unqualified audit report is issued. *(10 marks)*
- D. The audit report prepared by WCP, Chartered Accountants is shown below. The audit for the year ended December 31, 2016 was completed on March 1, 2017 and issued to Poobear Limited, a private company Limited on March 31, 2017.
- Outline **FOUR (4)** deficiencies in the report and explain how improvements can be made. Do not rewrite the report. *(12 marks)*

We have examined the accompanying financial statements of Poobear Limited as of December 31, 2016. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted accounting principles. Those principles require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the effects of not capitalizing certain lease obligations that should be capitalized in order to conform with generally accepted accounting principles, the financial statements referred to above give a true and accurate view of the financial position of Poobear Limited as of December 31, 2016, in accordance with international Financial Reporting Standards and comply with the provision of the Jamaican companies Act.

WCP, Chartered Accountant
March 2017

(Total 30 marks)

END OF EXAMINATION