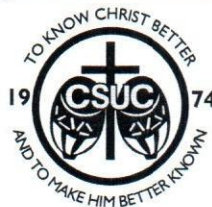


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Date.....



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA**

**CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE**

RE-SIT EXAMINATIONS – 2018/19 ACADEMIC YEAR

MASF 509: AUDITING AND ASSURANCE

AUGUST, 2019

60 MARKS

TIME ALLOWED: 2 HOURS

GENERAL INSTRUCTIONS:

**ANSWER ANY THREE (3) QUESTIONS IN ALL. ALL QUESTIONS CARRY
EQUALL MARKS**

QUESTION ONE

- a) BDE Company Limited operates a hotel providing accommodation, leisure facilities and restaurants. Its year ends on 31 March. You are the senior associate of ABC and Associates and are currently preparing the audit programmes for the year-end audit of BDE Company Limited. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed.

Depreciation

BDE Company Limited incurred significant capital expenditure during the year for refurbishing the restaurant facilities for the hotel.

The finance director has proposed that the new leisure equipment should be depreciated over 10 years using the straight-line method.

Food poisoning

BDE's directors received correspondence in January from a group of customers who attended a wedding at the hotel. They have alleged that they suffered severe food poisoning from food eaten at the hotel and are claiming substantial damages. BDE's lawyers have received the claim and believe that the lawsuit against the company is unlikely to be successful.

Required:

- i) Describe *substantive procedures* to obtain *sufficient and appropriate audit evidence* in relation to the above two issues. (6 marks)
- ii) List and explain the purpose of three items that should be included on every working paper prepared by the audit team during the audit of depreciation and food poisoning of BDE Company Limited. (3 marks)
- b)
- i) Identify and explain two financial statement assertions relevant to account balances at the year-end; and (2 marks)
- ii) For each identified assertion, describe a substantive procedure relevant to the audit of year-end inventory. (4 marks)
- c)
- i) *International Standard on Auditing 560: Subsequent Events* deals with auditor's responsibility towards events that occur after reporting date and especially before the auditor's report is issued.

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in the financial statements have been identified.

Required:

Explain **FIVE** audit procedures to test subsequent events. (5 marks)

(Total: 20 marks)

QUESTION TWO

You are an internal audit manager in a central government department that pays subsidies to agricultural businesses involved in the production of basic foodstuffs. You will soon be undertaking an internal audit of the claims processing unit in your department. In preparation for the assignment you are reviewing the audit file on the previous audit carried out three years earlier.

You find the following extract from one of the previous internal audit's planning schedules:

"The unit receives periodic subsidy claims from agricultural businesses on form S100, together with the documentary evidence required to support the claim.

These forms are given a unique reference number on receipt and the details of the claim are recorded in a computerised register by the claims clerk.

The claim forms and the documentary evidence are examined by a case officer, who approves the claim for payment by completing the relevant section of the computer record, once they have verified the completeness and validity of the documentary evidence provided.

The claims unit supervisor receives a weekly schedule of claims approved for payment and carries out a pre-payment review of a specified percentage of claims according to a number of claims value bandings.

The internal audit review in this area will take the form of a stratified sample of claim forms according to value drawn from the computer register of approved claims. These sample claim forms will be verified by reference to the supporting documentary evidence provided by the claimant."

After considering this extract, you are concerned that the approach taken previously was more appropriate for an external rather than an internal audit, and you decide to design a new suite of tests for the upcoming audit.

Required

- (a) Describe **one** inherent risk, **one** control risk and **one** detection risk relating to the claims processing system. **(3 marks)**
- (b)
 - (i) Discuss the view that the audit activity adopted in the previous audit was more appropriate for an external, rather than an internal audit. **(5 marks)**
 - (ii) Describe **three** additional tests that you would adopt this time, indicating for each test how you would assess the effectiveness of the process. **(6 marks)**
- (c) Briefly describe the main categories of risk associated with major capital contracts in the public services. **(6 marks) (Total 20 marks)**

QUESTION THREE

- (a) You are the audit manager of an audit firm where the purpose of an external audit and its role are not well understood. You have been asked to write some material for inclusion in your firm's training materials dealing with these issues in the audit of large companies.

Required:

In your paper explain the purpose of an external audit and its role in the audit of large companies, for inclusion in your firm's training materials. **(10 marks)**

- 2 The IFAC international Ethics Standards Board for Accountant (IESBA) Code of Ethics for Professional Accountants set out the five fundamental principles of professional ethics and provides a conceptual framework for applying those principles. Professional Accountants must apply this conceptual framework to identify threats to compliance with the principles, evaluate their significance and apply appropriate safeguards to eliminate or reduce them so that compliance is not compromised.

Required:

Identify **FIVE** major threats identified in the code of ethics giving examples of each.
(5 marks)

- c) Briefly explain **FIVE** duties and **FIVE** rights of an auditor under section 136 of the Companies Act, 1963, (Act 179). **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) List and explain **FOUR** factors that will influence the auditor's judgement regarding the sufficiency of the evidence obtained. (6 marks)
- b) *ISA 700 Forming an opinion and reporting on financial statements* indicates the basic elements that will ordinarily be included in the audit report.

Required:

List **SIX** basic elements of an auditor's report. Briefly explain why each element is included in the report. (6 marks)

- c) Outline the procedures for the appointment of auditors in accordance with the Companies Act 1963 (Act 179) (8 marks)

(Total: 20 marks)

QUESTION FIVE

- a) *ISA 265 Communicating deficiencies in internal control with those charged with Governance and Management*. Auditors must report deficiencies in internal control with those charged with governance and management.

Required:

Explain clearly what is *management letter*, indicating the contents of such a letter. (5 marks)

- b) Briefly explain what is meant by the '*Going Concern Concept*' and describe the test and procedures that the auditor needs to perform to form an opinion on management's conclusion that the company is a going concern as specified by *ISA 570 Going Concern*. (6 marks)
- c) Distinguish the three types of modified opinions that the auditor may issue on financial statements audited by him. (6 marks)
- d) State with details **TWO** circumstances under which an auditor may issue a qualified opinion. (3 marks) (Total: 20 marks)