QUESTION 1

(a)

i. The primary objective of having an audit is to enable the auditor to form an express a professional and independent opinion on whether the financial statements give a true and fair view of the financial position of the company and of its profits or loss for the period under review.

Other objectives

   i. To ensure that the financial statements comply with any relevant statutory requirements, e.g. the Companies Code, 1963, Act 179.
   ii. To detect fraud and error in the accounting records.
   iii. To provide advice to the client for improvements to the financial systems and controls within the business to prevent fraud and error and improve the efficiency of the operations.

ii. The two main disadvantages of having an audit are as follows:

   i. If you have an audit you have to pay for it. The auditor's fees and expenses can be high which is one reason why businesses which are not required to have audit rarely do and why many companies are not providing the auditors with more help in order that the audit fee can be controlled.
   ii. The nature of the audit will involve the use of client's records and the taking up of staff and management time. This will be disruptive to some degree and the auditors should ensure that it is minimized.

(b) A person is not qualified to act as an auditor of a company if that person:

i. Is an officer or servant of the company.
ii. Is a partner or employee of an officer or servant of the company.
iii. Is a body corporate.
iv. Is not a chartered or certified accountant.
v. Is debarred due to professional regulations of the accountancy bodies, e.g. being a shareholder of the company.

QUESTION 2

(a) In deciding on the appropriateness of the provision for doubtful debts, the following points must be considered:

i. The terms of credit common to the business.

ii. The age of the debt.

iii. Whether payment is made regularly.

iv. The cash discount taken. This indicates whether the debtor has been in the habit of paying promptly in the past.

v. Whether the balance outstanding is increasing.

vi. Whether any bill accepted in payment has been dishonoured.

vii. Whether cheques have been dishonoured.

viii. Whether the debt is in dispute.

ix. Whether any old outstanding balance is being liquidated by installments while the company supplying goods to the debtor for cash.

x. Whether any notes has been made at the head of the ledger account in respect of Deeds of Agreement, liquidation proceedings etc.

The auditor will for the schedule of bad and doubtful debts duely certified by a responsible official, and as he checks the balance, he will decide whether the provision is sufficient in each case.

(b) During the course of an audit, the auditor must note the following when examining a voucher:

i. The date of the voucher must fall within the period covered by the audit.

ii. The voucher must be addressed to the client. This is important in substantiating the “bonafides” of the voucher as well as in establishing that private transactions of partners or directors are not being charged to the concern.

iii. The voucher must be a complete one and an alternative one.

iv. The details of the voucher must agree with the recording in the books of accounts.

v. It must be seen that the voucher submitted had been accepted previously in respect of any other entry. This is done very simply by the cancellation by the auditor in some distinctive way of each voucher when accepted- rubber is often used.

vi. The auditor should always be on the alert for any indication that the voucher itself may be fraudulent.

QUESTION 3

The auditor would have cause to examine the minutes books of the:

(a) Shareholders in order to verify:

i. The adoption of the last accounts.
ii. The appointment and remuneration of the auditors.
iii. The appointment of new directors, or re-appointment of retiring directors.
iv. The approval of the director's remuneration.
v. Any resolution of affecting the accounts.
vi. The appropriation of profits, e.g. as dividends.
vii. Any alterations to the regulation.

(b) Directors, in order to verify:

i. The purchase and sale of assets.
ii. The recommendation of dividends and other appropriations of profits.
iii. The adoption of contracts.
iv. The use of the company seal.
v. The appointment of bankers and the officers appointed to sign cheques.
vi. The appointment and remuneration of the managing director, secretary and other officials.
vii. The payment of expenses to a director.
viii. The division of the director's fees amongst the directors, where the regulations only state a lump sum.

ix. The appointment of the auditors before the first annual general meeting or to fill a casual vacancy and fixing their remunerations.
x. The payment of interim dividend, if the articles permit.
xi. The adoption of the accounts and the report to the members.
xii. Any charges in respect of the company's assets.
xiii. Matters affecting the share capital of the company, e.g. the issue of share, allotment, calls, forfeiture and reissue.

(ii) The following safeguards should be introduced in order to minimize the disadvantages of the –checking:

a. The discussion with the client's staff of the audit procedures and the extent of the test-checks should be rigorously discouraged.
b. The period to be audited should be selected by the audit staff without any influence whatsoever from the client's staff.
c. The audit should cover the whole of the period to be audited and not merely be confined to a small area.
d. The audit staff should be made aware of the system of internal check in force, understand its implications and be directed to known weakness. In this way the audit staff will be given an objective and not be left to wander aimlessly through the audit task.

QUESTION 4

(a) The auditor should carry out the following procedures when verifying the amounts shown in the annual accounts for additions and alterations to factory premises carried out by own employees:

i. Examine the architect's certificate from the managing director showing to what extent construction have completed.
ii. The auditor should obtain a certificate from the managing director showing to what extent construction has been completed and the cost.
iii. The auditor might consider the advisability of actually inspecting the buildings altered, but this will depend on the location of the building.
iv. The auditor should obtain a schedule of the work done, analyzed over wages, materials and overheads.
v. Check the materials content with the purchase invoices, and stores issue notes. Check the provision for materials on site not used at the year end.

vi. Obtain a certificate from the works manager and check the wages content against the certified time sheets.

vii. Check the collection of overheads and see that the basis is correct. Overheads attributable to certain departments will be specifically excluded, e.g. selling department.

viii. Ensure that there is no element of profit taken, because a business cannot make profit by trading with itself.

(b) The books of accounts which must be kept are contained in Section 123 of the Companies Code, 1963, Act 179, as follows:

i. All sums of money received and expended by the company and the matters in respect of which the receipts and expenditure take place.

ii. All sales and purchases of goods by the company, except where sold in normal retail trade.

iii. The assets and liabilities of the company and the interests of the members therein.

Proper books of accounts shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company affairs and to explain its transactions.

The following books are normally kept by the company:

i. The cash book.

ii. Purchases and Sales day books.

iii. Personal, nominal and real accounts ledgers.

The code does not require the preservation of the voucher, but these are normally kept for a reasonable length of time and, in any case, for the purposes of audit.

QUESTION 5

(i.)

a. A total or control account is a method by means of which the balances within a ledger can be proved. All the detail posted to the respective ledger accounts is entered in total, in the control account. This on account is said to control several.

b. Because the ledger accounts are posted from the respective day books, it will follow that the control account is entered from the totals of such day books:

c. The advantages to the auditor of such account are:

1. He is able to prove the arithmetical accuracy of the respective ledger which consequently reduces the amount of detailed check-up.
2. If the trial balance does not balance, he will be able to identify the ledger in which the error has occurred.
3. Because the client's staff will also be able to localize the error, it is possible that the books will have been balanced at the date of audit.

d. Audit working papers are prepared for several reasons. Their preparation allows the person who is conducting the audit to approach his work in a methodical way. If they are prepared as the audit proceeds omissions will be prevented and the successive chains of command, senior, supervisor, manager and partner are able to maintain control over the audit by carrying out review procedures.

The preparation of working papers also allows the partners to know that adequate has been performed before he ascertains whether the accounts show a true and fair view or not. Since the working papers are documentary evidence of the performed then such evidence will be available for any court case.

The preparation of working papers in any one year will also form a basis for succeeding audits since there will be a record of problems encountered for future guidance.

(c) The main categories of items that would be included in a complete set of working papers are:

1. Information of continuing importance, e.g. regulations.
2. Audit planning information.
3. The auditors assessment of the accounting system and, if applicable the internal controls in operation.
4. The detailed audit work undertaken together with all the conclusions drawn thereon.
5. Evidence that the work performed by the audit staff has been reviewed by more senior personnel.
6. Analyses and summaries supporting the balances and revenue items in the financial statements.
7. A summary of significant points affecting the audit, the financial statements and the auditor's report and how these were dealt with.