

Examination No. \_\_\_\_\_

**THE PUBLIC ACCOUNTANTS EXAMINATION**  
**COUNCIL OF MALAWI**

**2011 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC 7: AUDITING**

WEDNESDAY 30 NOVEMBER 2011

TIME ALLOWED : 3 HOURS  
2.00 PM - 5.00 PM

**INSTRUCTIONS**

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper – 7.
3. **FIVE** questions **ONLY** to be answered.
4. Each question carries 20 marks.
5. Begin each answer on a fresh page.
6. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 5 pages

This question paper must **not** be removed from the examination hall.

1. You are an audit assistant working for a very reputable public accountancy firm that recently sponsored you to attend an audit conference at one of the lakeshore resorts. One of the presenters ably talked about computers in the audit practice. He covered areas of application controls, test data and audit trail in computerized accounting systems.

Your audit manager wants to know what you have learned from this conference and has asked you to meet him in the firm's board room so that you can fully explain to him, especially the issues detailed below.

**Required:**

- (a) Explain and give examples of application controls over input and processing of data. **9 Marks**
- (b) Briefly describe the contents of a test data pack and why an auditor should use such a pack. **5 Marks**
- (c) Why is there a loss of visible audit trail in many computer based accounting systems? **6 Marks**
- (TOTAL: 20 MARKS)**

2. (a) 'SAS 610 Reports to Management and Directors', provides guidelines on how an auditor should communicate to management and directors.

**Required:**

- (i) State the procedure associated with the communication of control weaknesses to management in relation to:
- (1) Timing of the communication;
  - (2) Method of communication;
  - (3) Level of management to which communication should be made. **6 Marks**
- (ii) State the extent of an auditor's responsibility to detecting and reporting internal control weaknesses. **3 Marks**
- (b) The Association of Certified Chartered Accountants (ACCA) has published an ethical guide for members known as "Rules of Professional Conduct" which deals with many areas of concern for professionals in practice. One such area is on confidentiality and conflict of interest.

**Required:**

- (i) To be in line with the rules of professional conduct, explain how an auditor is expected to deal with confidentiality and conflict of interest. **8 Marks**

**Continued/.....**

- (c) Bill Construction Company Limited is one of your clients. The company has been asked to tender for the construction of a new hospital wing at your district headquarters. You have been asked to advise Bill Construction Company Ltd regarding the financial stability of a number of subcontractors who will be employed by Bill Construction to carry out some of the construction works. One of the sub-contractors, Kanjedza Building Contractors, is also your client.

The Managing Partner of your audit firm is concerned that the above issue may mean that the firm is in breach of professional conduct. He has requested you to consider the issue and make a recommendation for possible corrective action as appropriate.

**Required:**

Identify the problems with the scenario above and make appropriate recommendations to your managing partner.

**3 Marks  
(TOTAL: 20 MARKS)**

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**Continued/.....**

3. ISA 520 and SAS 410 “Analytical Procedures” are Standards relevant to analytical procedures. Analytical procedures concern not only investigation of fluctuations but also consider relationships.

**Required:**

- (a) State the purpose of analytical procedures. **3 Marks**
- (b) QuickGrowth Computer Supplies Ltd is a company specializing in a small range of computer accessories and supplies them to wholesalers. The turnover for the year ended 31 December 2010 was approximately K500 million. The products of the company have not changed for some time, but turnover and profits have recently increased broadly in line with the rate of inflation. As Auditor, you attended the physical inventory count and obtained direct confirmation of amounts due from customers for the year ended 31 December 2010 prior to the production of any management accounts for the year. On receipt of draft management accounts for the year, your analytical procedures reveal that:
- (1) The gross profit percentage increased from 30% to 34%
  - (2) Inventories at the end of the year represented 35% of the purchases during the year as compared to 25% of prior year
  - (3) Purchases of raw materials show a gradually increasing trend each month throughout the year except for the last month which shows a decrease of 30% as compared to the previous month.

**Required:**

- (i) State the possible reasons why the gross profit of QuickGrowth Computer Supplies Limited would increase. **11 Marks**
- (ii) What factors would you, as auditor of this company, consider before placing reliance on substantive analytical procedures? **6 Marks**  
**(TOTAL : 20 MARKS)**

4. A great deal of the work of a professional accountant requires the preparation or collection of working papers.

**Required:**

- (a) State the need for such “working papers” in the office of a practising accountant. **10 Marks**
- (b) Give, in a summary form, a list of the working papers you would normally expect to find in an audit file. **10 Marks**  
**(TOTAL: 20 MARKS)**

**Continued/.....**

5. The APC issued a detailed operational guideline entitled 'Reliance on other experts'.

**Required:**

- (a) State any **five** specialist evidence that an auditor may consider using in the course of an audit. **5 Marks**
- (b) Mention **five** factors that an auditor would examine in order to ascertain the evidence of the specialist. **5 Marks**
- (c) The statement of financial position for Golide Mine Limited has K1 billion in plant, equipment and motor vehicles.

State how you, as auditor, would verify the balance that has been included under the category above.

**10 Marks**

**(TOTAL : 20 MARKS)**

6. (a) The wording of an auditor's report may depend on the circumstances that have arisen in the course of carrying out the audit.

**Required:**

For **each** type of wording below, give examples of a situation that may lead the auditor to apply such wording.

- (i) Except for – issues are material but not pervasive **2½ Marks**
- (ii) Except for – limitation of scope **2½ Marks**
- (iii) Disclaimer of opinion – limitation of scope **2½ Marks**
- (iv) Adverse opinion. **2½ Marks**
- (b) The work of internal and external auditors may be similar to some degree, but there are clear differences between internal and external audits.

**Required:**

State and explain the differences between internal and external audits.

**10 Marks**

**(TOTAL : 20 MARKS)**

7. (a) Section 192 of the Companies Act 1984, deals with the persons who are eligible to act as auditors of a company.

**Required:**

State and explain the persons who are ineligible to act as auditors of a company, in accordance with the Companies Act.

**5 Marks**

**Continued/.....**

- (b) Auditors need to have certain qualities that would make them perform the functions of the office of auditor.

**Required:**

Discuss the qualities that an auditor needs to have to be allowed to be appointed auditor of a company. **7 Marks**

- (c) Internal controls are important in running an organization in an efficient and effective manner. Much as the controls are helpful in ensuring that organizations are run efficiently, they have some inherent limitations which management and auditors of organizations need to realize.

**Required:**

State and explain the inherent limitations of internal controls that you, as auditor, need to be aware of. **8 Marks**

**(TOTAL: 20 MARKS)**

**END**