**Q.2 (a) Possible Risks:**

(1) Judgments are involved in identifying whether and when there is an identifiable asset that will generate expected future benefits.

(2) The software may not be technically feasible.

(3) Technical, financial and other resources may be inadequate.

(4) Estimates and judgments involved in cost allocation.

(5) The product cannot be guaranteed to be bugs free.

(6) Technological obsolescence.

**Certain Measures to Minimize the Risk:**

Certain Measures to Minimize the Risk are:

(1) Written agreement with the customer specifying when and how much funds will be provided in advance.

(2) Monthly review and monitoring the development.

(3) Monthly comparison of actual with budgeted cost.

(4) Recruitment of competent staff.

(5) Continues feedback from customers.

**(b) (i) Risk Analysis:**

The identification of risk, the measurement of risk, and the process of prioritizing risks or selecting alternatives based on risk.

**(ii) Absolute Risk:**

Pure risk without the mitigating effects of internal controls.

**(iii) Inherent Risk:**

The risk found in the environment and in human activities that is part of existence.

**Q.3 (a) Course of Action to be Adopted:**

A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the services, a misunderstanding as to the nature of an audit or related services originally requested or a restriction on the scope of the engagement, whether imposed by the management or caused by the circumstances.

A change in circumstances that affects the entity's requirements or misunderstanding concerning nature of services originally requested would ordinarily be considered as reasonable basis for requesting a change in the engagement. However, a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.

The auditor should also consider legal or contractual implications of the change. In view of above, it would not be appropriate to accept the change in the assignment as the reason for change seems to be lack of availability of audit evidences.

**(b) Matters dealt in Quality Control Reviewer's Report:**

Reviewer's report shall deal with the following matters:

(1) Acceptance and continuance of client;

(2) Hiring, skill and competence;

(3) Assigning personnel to audit engagements;

(4) Direction and supervision;

(5) Watching professional development and advancement;

(6) Inspection.

**(c) Objectives of Quality Control Policies and Procedures:**

Audit firms should maintain a system of quality controls in order to provide reasonable assurance that:

(i) The audit firm and its staff comply with professional standards;

(ii) Individual audits comply with professional standards and legal requirements.

(iii) Audit reports issued are appropriate.

**Q.4 (a) Items in the Auditors' Audit Programme:**

In order to draw up a well designed and satisfactory audit programme, the auditor should include the following items in audit program:

(1) Name of the client.

(2) Audit commencement date.

(3) Duration of audit.

(4) Accounting system of the client.

(5) System of internal control.

(6) Previous auditors' reports.

(7) Examination of:

- Cash book and petty cash book.
- Sales and sales returns books.
- Purchase and purchase returns books.
- Bills receivable and bills payable books.
- Ledger accounts and other books.
- Statutory books and registers being maintained by the company.

**(b) Information, Documents, Evidence or Analysis included in Working Papers:**

The working papers help in the planning, performance, supervision and review of the audit. Working papers generally include the following: **{any ten (10)}**

(1) Trial balances, adjusting entries, schedules, reconciliation, summaries of data, comments and explanations.

(2) Analysis of transaction and balances.

(3) Analysis of significant ratios and trends.

(4) Information concerning the legal and organisational structure of the entity.

(5) Extracts or copies of important legal documents, agreements and minutes.

(6) Information concerning the industry, economic environment and legislative environment within which the entity operates.

(7) Evidence of the planning process including audit programs and any changes thereto.

(8) Evidence of the auditor's understanding of the accounting and internal control systems.

(9) Evidence of internal and control risk assessments and any revisions thereof.

(10) Evidence of the auditor's consideration of the work of internal auditing and conclusions reached.

(11) A record of the nature, timing and extent of audit procedures performed and the results of such procedures.

(12) An indication as to who performed the audit procedures and where they were performed.

(13) Copies of communication with other auditors, experts and other third parties.

(14) Copies of letters or notes concerning audit matters communicated to or discussed with the entity, including the terms of engagement and material weaknesses in internal control.

(15) Letters of representation from entity.

(16) Copies of financial statements and auditor's report.

**(c) Steps Taken for an Affective Check on Cash from Debtors:**

In order to put an effective check, so that the said malpractice is checked, the following steps should be taken:

(1) The carbon copy of the receipt or the counterfoil receipt, as the case may be, should be checked with the pay-in-slip, special attention should be given to the amount banked, i.e., number of the cheque and corresponding amount. This is meant to ensure whether the cheques which were received had been deposited into the bank.

(2) The management must follow as an inflexible guiding rule that all bearer or other cheques received are immediately crossed "Accounts Payee only".

(3) The specimen of the acknowledgement against the receipt of money should provide for the disclosure of the facts whether the amount was received in cash or by cheque. In the case of payment by cheque, the cheque number must be stated on the carbon copy receipt or the counterfoil receipt.

**Q.5 (a) Control Procedures:**

"Control procedures" means those policies and procedures in addition to the control environment which management has established to achieve the entity's specific objectives.

**Points included in Specific Control Procedures:**

Specific control procedures include:

- Reporting, reviewing and approving reconciliations.
- Checking the arithmetical accuracy of the records.
- Controlling applications and environment of computer information systems, for example: by establishing controls over:
  - changes to computer programmes;
  - access to data files.
- Maintaining and reviewing control accounts and trial balances.
- Approving and controlling of documents.
- Comparing internal data with external sources of information.
- Comparing the results of cash, security and inventory accounts with accounting records.

**(b) Auditor's Opinion:**

**(i)** Provision is not required, as the decision has not yet been communicated to affected parties. An unqualified report will be in order.

**(ii)** At 2010, disclosure is adequate and an unqualified report will be issued.

At December 31, 2011 a provision is required on the basis of present obligation which will require outflow of economic resources. A qualified report will be issued.

**(iii)** Increase in the value of other assets is not a justification for not providing impairment loss on land. The audit report will be qualified.



**Q.6 (a) Purposes of Cost Audit:**

(1) To verify the accuracy of cost accounting data.

(2) To ensure that the books of cost accounts have been properly maintained according to the principles and practice of costing employed in the industry concerned.

(3) To verify that the cost of production reports are properly drawn up as per the records and that they show a true and fair views of the cost of production.

(4) To detect any error or fraud which might have been committed deliberately or otherwise.

(5) To verify that the cost accounting procedures prescribed by the management have been adhered to or not.

(6) To ascertain the abnormal losses or gains together with their causes.

(7) To check and critically evaluate unit cost of the finished goods.

**(b) (i) Material Cost: {any six (06)}**

The cost auditor should check the following points in respect of materials costs:

(i) Items of indirect and direct material costs.

(ii) Cost of raw materials used.

(iii) Quantity of raw materials used.

(iv) The materials variances supported with their explanation.

(v) The system of materials receipts, inspection and issue.

(vi) The methods of valuation of inventory.

(vii) The system of quantifying of wastage, supported with the course and steps taken to reduce them.

(viii) Internal control system of materials.

**(ii) Depreciation: {any six (06)}**

The cost auditor should check the following points:

(i) The list of depreciable assets with estimated lives.

(ii) The rates of depreciation applicable to each type of depreciation balance etc.

(iii) The method of depreciation e.g., straight-line, diminishing balance etc.

(iv) Basis of allocation depreciation of common assets to different departments.

(v) The addition of new machines and disposal of old machines.

(vi) The treatment of gain or loss on disposal of machine.

(vii) Repairs and maintenance expenses.

(viii) Proper recording of plant and equipments in the fixed assets register.

(ix) Policy regarding purchases, disposal, repairs and maintenance.

**THE END**