

INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)



**MAY 2011 EXAMINATIONS
(PROFESSIONAL)**

PART 4

**ADVANCED AUDIT AND PROFESSIONAL ETHICS
(Paper 4.2)**

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Workings	-	3 Hours

QUESTION 1

Your firm, Agyaba Associates is planning the audit of a client, Accelerero Ghana Limited, a subsidiary of a long established company which offers consultancy services to the Oil and Gas industry for the year ended 31 December, 2010. The company has a turnover of GHS10 million, (2009: GHS50.9m) all of which was from one customer, a state-owned company with head office in Tema. The year end accounts receivable balance was GHS7.6 million (2009: GHS11.8m).

There were disputes with the client over invoicing errors and the accountant, in the preliminary discussions, could not provide answers to most of the disputed figures because he only assumed the position in September 2010. He was the third accountant since the company started its operations in April 2009. The immediate supervisor of the accountant is the Regional Accountant – Africa, based in Johannesburg, South Africa.

There are many intra-group transactions with other Accelerero Group companies in other parts of the world.

The financial statement of the company for 2009 was audited by the local office of a multinational audit firm in 2008.

You have been nominated as the audit manager in charge of the audit of Accelerero Ghana and you have been given the consolidation package from the Accelerero Group auditor in the United Kingdom and the audit schedules from the previous auditor. There is a strict deadline for completing the audit by the end of February 2011 for consolidation by the group auditor in the UK.

At the opening meeting with the other nominated staff for the assignment, your partner has asked you to ensure that they get a good understanding of the background, risks, ethical and other considerations in respect of the client.

Required:

- (a) Explain **five (5)** issues you would consider in order to meet the requirements of the professional code of ethics to ensure that your firm will perform the audit assignment with the required professional competence and due care.
(5 marks)
- (b) Explain **five (5)** procedures you would perform in order to meet the requirements of the Professional Code of Ethics in respect of the change in professional appointment.
(5 marks)
- (c) ISA 315 requires that auditors consider the entity's process for assessing its own business risks, and the impact that might have on the audit in terms of material misstatement.
 - (i) Distinguish between *business risk* and *audit risk*.
(2 marks)
 - (ii) Identify **eight (8)** business risk issues identifiable in the preamble.
(8 marks)

(Total: 20 marks)

QUESTION 2

You are the partner responsible for the audit of PSK Insurance Company Limited, a long standing client of your firm. You have been the audit supervisor and later manager of the audit of this company until you became a partner in your firm and took charge of the company's audit.

The company has seen good days but for the past few years, things have taken a turn for the worse. The 2009 financial statements you are busy auditing shows that the company is technically insolvent and you have invited the other partners in your firm to discuss whether the going-concern concept is applicable to PSK Insurance.

Management of PSK has given you information on their plans to recover and as part of the management letter, they attached a comfort letter from the Obofo Yena Bank (controlled by the parent company of PSK Insurance) that it owes approximately 80% of its debts in which the bank states it would not demand for payment of its indebtedness until all other creditors have been settled. This is fully explained in a note in the financial statements.

Required:

- (a) As the Assignment Partner responsible for the audit of PSK Insurance, list **eight (8)** of the issues you would consider so that the other partners would appreciate your concern that PSK insurance may not be a going-concern.
(4 marks)
- (b) Explain the main purpose of Management Representation as an audit tool and describe their usefulness as audit evidence, and **four (4)** special considerations you would discuss with your other partners in deciding whether or not to accept the letter from the bank in consideration of the going-concern problems of your client.
(6 marks)
- (c)
 - (i) Assuming you decide to accept the letter from Obofo Yena Bank in consideration of the going-concern problem of the company and you have no other issues that stop you from issuing an unmodified audit report, draft the opinion section of the audit report you would issue to the members of the company suitable for this situation.
(4 marks)
 - (ii) Outline **six (6)** audit procedures you would perform to ensure that any other events occurring between the date of the financial statement and the date of your audit report have been identified.
(6 marks)

(Total: 20 marks)

QUESTION 3

- (a) Your firm has taken up a new appointment as the auditors of Kwanyarko Brass Band Limited. The company won a Grammy Award for its rendition of an old highlife tune and is currently in demand in USA and EU. Management has set up a website to receive online booking, deposits and final payments for concerts in and out of Ghana.

Required:

- (i) Discuss **six (6)** controls that you would expect to be implemented on the website of Kwanyarko Brass Band Limited. **(6 marks)**
- (ii) For **four (4)** of the controls in your answer in (i) above, outline an audit test you would perform in your audit of Kwanyarko Brass Bank Limited to confirm that the control is working as intended. **(4 marks)**
- (b) In your review of the reports of the Internal auditors of Kwanyarko Brass Band Limited, you came across the report of fraud involving the use of credit cards in payment for T-shirts and other fan-related memorabilia of the band. Your discussion with IT management revealed that what internal audit called fraud occurred as a result of errors in processing logic of the 'e'-commerce application used on the website.

Required:

Describe the audit approach you will adopt and the test you will perform to enable you decide whether what happened was fraud or error.

(5 marks)

- (c) Your firm took up another new appointment as the auditors of Kanda Oleum Limited, a company that has acquired some of the production fields in the Jubilee Oil and Gas Fields off the west coast of Ghana. You were asked to discuss the need for your firm to include social and environmental audit issues in your planning for the audit of Kanda Oleum Limited for the year to end 31 December 2010.

Required:

Examine **five (5)** reasons why it would be necessary to include social and environmental audit in your audit plan for Kanda Oleum Limited for the year to end 31 December 2010.

(5 marks)

(Total: 20 marks)

QUESTION 4

- (a) The chairman of the Audit Committee of Board of Directors of Ghanabeyeyie Company Limited, Mr. Wosoyebi, asked you as the team leader in charge of the Ghanabeyeyie audit to prepare a report to the Audit Committee on some topics of interest to the committee:

Required:

Prepare a report to be read at the audit committee meeting in which you:

- (i) Explain **five (5)** reasons why it is important for auditors to have knowledge and understanding of the business when planning an audit engagement.

(5 marks)

- (ii) Discuss **two (2)** major advantages of getting the external and internal auditors to liaise with one another at the beginning of an audit and **four (4)** issues the external auditors would consider in deciding whether to rely on the work of the internal auditors.

(5 marks)

- (b) Oman Ghana Trust Limited is a long established company engaged in plantation farming of traditional cash crops in the Western Region of Ghana. Its head office is at Enchi. The company has seen big growth in recent years but has a finance manager who is not keeping up with developments in International Financial Reporting Standards (IFRS). Your audit firm has been appointed the auditors and you, the proposed audit manager, have been given the task of reviewing the draft financial statements for the year ended 31 December 2010 as part of the planning phase of the audit.

The draft 2010 financial statements show a profit before tax of GHS192m (2009: GHS167m) and total assets of GHS553m (2009: GHS510m).

The following, inter alia, are two issues you have been confronted with:

(1) Share-based payment

The directors approved a share-based payments scheme for the chief and other executive directors in 2010. The directors had included the following in their resolution that approved the payments:

The fair value of all share-based remuneration is to be determined at the date of grant based on the market value of the shares and recognised as an expense in the statement of comprehensive income on a straight-line basis over the vesting period, taking into account the estimated number of shares that will vest. All share-based remuneration is to be equity-settled.

For the year ended 31 December 2010, the accounts showed a share-based expense of GHS4.8m and equity reserve relating to share-based payment scheme of GHS8.7m.

Required:

- (i) Explain **three (3)** matters you would consider to determine whether the amounts have been appropriately valued.

- (ii) Describe **two (2)** tests you would perform to quantify the amount of any misstatement.
(5 marks)

(2) **Liability in respect of Guarantee to customers**

In the year ended 31 December 2010, the company had nursed some special quick-growth and high-yielding seedlings which were sold to some farmers in the area with a guarantee that they will mature in two years and will yield certain amounts of produce in the first three years after maturity. Management has created a liability for this guarantee to be expensed in comprehensive income in the period of the guarantee. Management estimated that the liability is from the following:

Sales of seedling from special breeding techniques	GHS12.6m
Sales of same quantity of seedlings with no special breeding techniques	<u>GHS8.4m</u>
Liability for Guarantee (2009: GHS nil)	<u>GHS4.2m</u>

Required:

Based on the Conceptual Framework of the International Accounting Standards Board, state the definition of liability and the recognition criteria for liabilities and use these to decide whether the treatment of the guarantee was correct.

(5 marks)

(Total: 20 marks)

QUESTION 5

- (a) You are a partner of Yenoyie and Co, Chartered Accountants. You are performing the final procedures for concluding on the audit of Strategic Investment Ghana Limited (Strategic Investment) which has been a client of your firm for a number of years. In recent years the company has been acquired by some foreign directors and has been transformed from investing on local stock exchange to the West African sub-region and even beyond. You have been the partner in charge of the audit for all the years but the directors have found it difficult to explain the sources of the funds used for the investments in the past year. You suspect the company is engaging in money laundering.

Required:

Write a memo to the directors of Strategic Investments in which you:

- (i) Explain what is meant by “money laundering”.

- (ii) Explain **four (4)** factors that could have led you to suspect some transactions.
 - (iii) Explain **five (5)** of the procedures auditors are required to perform in discharging their obligations in the detection and prevention of money laundering.
(10 marks)
- (b) Apart from their normal statutory audit duties as set out by International Standards of Auditing (ISAs), auditors are sometimes called upon by management to perform forensic audits.

Required:

- (i) Discuss **five (5)** fundamental ethical issues the auditor must consider when called upon by management of an audit client to perform a forensic audit assignment.
- (ii) State **five (5)** ways in which a forensic audit report would differ from that of a normal audit investigation of the same suspected fraudulent activity.
(10 marks)

(Total: 20 marks)