SOLUTION 1

(a) Two (2) broad categories of safeguards are as follows:

(i) Safeguards created by the profession, legislation or regulation.

(ii) Safeguard in the work environment.

(b) Eight (8) safeguards in the work environment:

(i) Leadership of the firm that stresses the importance of compliance with the fundamental principles.

(ii) Leadership of the firm that establishes the expectation that member of an assurance team will act in the public interest.

(iii) Policies and procedures to implement and monitor quality control of engagement.

(iv) Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and their identification and the application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant to an acceptable level.

(v) Documented internal policies and procedures requiring compliance with the fundamental principles.

(vi) Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.

(vii) Policies and procedures to monitor and. If necessary manage the reliance on revenue received from a single client.

(viii) Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.

(ix) Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.

(x) Timely communication of a firm’s policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.

(xi) Designating a member of Senior Management to be responsible for overseeing the adequate functioning of the firm’s quality control system.

(xii) Advising partners and professional staff of those assurance clients and related entities from which they must be independent.

(c) Five (5) Sections included in a Forensic Audit Report:

(i) Details of the expert's qualifications and relevant experience.

(ii) The nature and scope of assignments. This should spell out the terms of reference given to the expert.

(iii) The approach adopted for the forensic audit. Details of any literature information that the auditor relied on in the assignment should be noted.

(iv) Limitations of scope (if any).

(v) The findings and summary of conclusions reached.

(vi) Opinion: Where there is a range of opinions on the matters dealt with, a summary of the range of opinions, and the reasons for the expert's opinion should be given.

(vii) Appendices, schedules and graphics supporting the findings.

SOLUTION 2

(a) (i) The audit objectives in examining the balance on investments include the to ensure:

1. The completeness of investments and investment income.

2. That investment securities are safeguarded.

3. That investments exist at the balance sheet date.

4. That the client has valid title to investments.

5. That movement on investments during the period are properly accounted for and disclosed.

6. That investments and investment income are properly classified, described and adequately disclosed in the financial statements.

(ii) Substantive procedures to obtain assurance of the balance on investment include:

1. Obtain a schedule of investments, distinguishing between the various classes of investments.
2. Compare the schedule to the previous year's and investigate any marked differences.

3. Confirm authority for new acquisitions and disposals by reference to board minutes.

4. Check the correct treatment of the transaction during the period under review by reference to the entries in the accounting records, the investment register and details in broker's contract notes.

5. Inspect securities and ensure they are in the name of the client and are securely held in safe custody.

6. Confirm valuation by reference to an appropriate publication for listed companies and audited accounts for unlisted companies or directors valuation.

7. Confirm investment income by reference to:

   - Known interest rates for fixed interest securities
   - Share information service
   - Copies of audited accounts of unlisted companies

8. Check the classification, description and disclosure of investments and investment income in the financial statements.

(b) In determining whether to use computer – assisted audit techniques, the factors to be considered include:

1. Computer knowledge, expertise and experience of the auditor.
   The auditor needs to have sufficient knowledge to plan, execute and use the results of the particular CAAT adopted. The auditor should be aware that the use of CAATs in certain circumstances may require significantly more computer knowledge and expertise than others.

2. Availability of CAATs and suitable computer facilities.
   The auditor should consider the availability of CAATs, suitable computer facilities and the necessary computer-based accounting systems and files. The auditor may plan to use other computer facilities when the use of CAATs on the entity's computer is uneconomical or impractical.

   The auditor may require the co-operation of the entity's personnel to provide processing facilities at a convenient time, to assist with activities such as loading and running the CAATs on the entity's system, and to provide copies of data in the format required by the auditor.

3. Impracticability of manual tests.
It may be impracticable to perform manual tests in the computerised accounting system and the lack of visible evidence may occur at different stages in the accounting process. For example:

- Input documents may be non-existent where sales orders are entered online. Discounts and interest calculations with no visible authorization of individual transactions.

- The system may not produce a visible audit trail of transactions processed through the computer. Delivery notes and suppliers' invoices may be matched by a computer programme.

- Output reports may not be produced by the system. Also a printed report may only contain summary totals while supporting details are retained in computer files.

4. Effectiveness and efficiency.
The effectiveness and efficiency of auditing procedures may be improved through the use of CAATs in obtaining and evaluating audit evidence. For example:

- Some transactions may be tested more effectively for a similar level of cost by using the computer to examine all or a greater number of transactions than would otherwise be selected.

- In applying analytical review procedures, transactions or balance details may be reviewed and reports printed of unusual items more effectively by using the computer than by manual methods.

- The use of CAATs may make additional substantive procedures more efficient than reliance on controls and related compliance procedures.

5. Timing.
Certain computer files such as detailed transactions are often retained only for a short period, and may not be available in machine readable or when required by the auditor. Thus, the auditor will need to make arrangements for the retention of the data required by him or he may need to alter the timing of his work which requires this data. Where the time available is limited, the auditor may plan to use a CAAT because it will meet his time requirement better than other procedures.

SOLUTION 3

(a) Prekesse Ltd

(i) **Main audit risk for payables**

Overseas suppliers (24% of total trade payables)
Given that the clerk retired without replacement, it is possible that controls have declined both during and subsequent to her illness. Purchases from overseas may involve foreign exchange considerations as well as problems of late invoicing – all may result in difficulties in obtaining sufficient evidence in the time available. Recognition of year end goods in transit as inventories may depend on whether shipments are 'free on board' (FOB) or 'carriage, insurance, freight' (CIF).

Ababio Ltd (51½% of total trade payable)
Absence of a year end balance confirmation suggests that this major supplier does not provide statements against which the completeness of Prekesse Ltd recorded trade payable can be checked.

Heavy dependence (economic) on one supplier may be risky, especially given the new retention clause, which may indicate a lack of stability on the part of either Prekesse Ltd or Ababio Ltd. If there are concerns about the appropriateness of the going concern basis for Prekesse, the extent of raw material inventories and indebtedness subject to reservation of tile clauses must be disclosed in the notes to the financial statements.

Merger
Third parties may be seeking to rely on this year's audited financial statements as a result of the merger – any pressure to manipulate results (eg suppressing liabilities and expenditure) increases inherent risk.

Computer problem/GRNI accrual (9.8% of total trade payables)
This may be further evidence of a slippage in controls generally (see above) any may render both cut-off work and the GRNI provision difficult to audit. If the problem in the week after the year end amounted to a breakdown, inherent risk (as well as control risk) may be increased.

Tight deadline
The very tight deadline increases audit risk, as the time scale for identifying unrecorded liabilities (eg through after-date payment) will be significantly reduced.

(ii) **Outline audit approach**

General
Normal checking – of amounts from schedule provided back to supporting schedules, nominal and purchase ledger balances, and through to financial statements (including checking of casts and cross casts on a sample basis). Also purchase ledger control account reconciliation to the purchase ledger list of balances.

Analytical procedures – on all four areas with as much disaggregation as possible, subject to availability of information. Month-on-month analysis should be examined wherever possible with reference to prior year levels, inventory levels and production schedules. Any significant change in the trade payables payment period should be justified. Particular attention should be paid to old items.

Tests of controls **–** will be of greater significance, given the preliminary indications of control breakdown and the tight deadlines which will make gathering of sufficient substantive evidence re year end balances difficult.

***Cut*-off** – the combination of computer breakdown, retirement of the overseas clerk, and inherent problems with overseas suppliers will result in a need for significantly increased volume of substantive procedures on cut-off. Management may try to manipulate this area, so errors should be carefully investigated before being dismissed as isolated.

Supplier statement reconciliation – will be useful in substantiating the GRNI accrual and goods in transit.

Ababio Ltd
The reason for the new retention clause should be ascertained at an early stage in order to assess any impact on going concern and/or disclosure. Circularization is not possible but responses to requests may confirm specific invoices outstanding. This should be the initial line of approach supplemented with analytical procedures, review of after-date cash, reconciliations to available statements (if any) and checking of individual invoices to GRNs, the GRNI provision and inventory records. Old unmatched purchase orders should be investigated to confirm that they have not resulted in unrecorded liabilities.

Overseas suppliers
It may be possible to fax/phone/email these suppliers as a speedier alternative to formal circularization. A significant proportion of the GRNI provision may be made up of foreign invoices, and cut-off warrants particular attention. The effect of the loss of the overseas clerk on controls must be evaluated and the approach and sample sizes adjusted accordingly. Foreign exchange accounting policies should be ascertained at an early stage in order to assess their appropriateness, the adequacy of disclosure, and compliance with stated policies.

GRNI
Analytical procedures and substantive procedures on individual invoices accrued for should be supplemented by written representations. This may also apply to other areas depending on the strength of other evidence available. It may be possible to circularize individual invoices.

Other (14.9% of total trade payables)
Individual balances represent 0.1 – 0.15% of total trade payables. As they are not material, detailed testing should be limited.

It may be possible to circulate a small sample of the largest 'other' payables before the year end and perform a 'roll-forward' to save time for more risky areas at the year end.

Any likelihood of a modified opinion

Given the above, an 'except for' qualification on the grounds of limitation on scope is possible, and this should be discussed with the client as this may affect merger negotiation. The client may prefer to delay rather than present financial statements with a modified audit report.

(iii) **Understatement errors**

Audit techniques which may help to identify understatement errors in the payables cycle include the following:

- Testing of authorisation and approval controls with regard to purchase orders, to ensure that all items authorised are then recorded.
- Substantive procedures, tracing from a goods received note to purchase invoice, to the purchases and suppliers account in the nominal ledger (via a purchase day book).
- Careful review of cut-off regarding purchase invoices around the year end, specifically with regard to invoices for goods received prior to the year end but where no liability has been recognized. Cur-off testing would stem initially from auditors' physical inventory count procedures and test counts.
- Analytical procedures on year end balances, using purchases turnover by supplier as an indication of the likely level of year end balance (as well as last year's balances).
- Suppliers' statement reconciliation with purchase ledger account balances.

(b) (i) An accountant in public practice should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession.

The fundamental principles of the Code of Professional Ethics for professional accountants require accountants to comply with the principles of integrity and objectivity.

The principle of integrity imposes an obligation on all accountants to be straightforward and honest in professional and business relationship. Integrity also implies fair dealing and truthfulness.

The principle of objectivity imposes an obligation on all accountants nt to allow bias, conflict of interest or undue influence of others to override professional or business judgments.

The Financial Controller of Buildwell Construction Ltd has behaved in contravention of the fundamental principles of integrity and objectivity. He has been dishonest in his business relationship for using his company's assets for his political purpose.

There is also conflict of interest threat to objectivity as his political interest conflicts with his business interest.

The safeguard for this threat to objectivity is for him to withdraw from his business relationship and pursue the political interest.

(ii) The proper disclosure of the Donation should be:

Donation - GHC10,000

Note: The donation was a contribution to the Ghana Trust fund.

SOLUTION 4

(a) The controls which should be exercised:

(i) Over the standing data files and transactions files are:

- All files should be copied regularly onto another removable disc. Copies should be stored in a separate location. At least two months file copies should be retained. This ensures reconstruction.
- Standing data should be printed out (dumped) at intervals. This should be reviewed by Mr Joojo.
- All output (customers statements, age analysis, day book copies) should be retained.
- Outstanding transactions should be printed out at intervals (quarterly) and overdue amounts and queried transactions should be reviewed.

(ii) Over input of transaction into the system

- Batch totals should be prepared by Miss Owelewa and entered in a batch summary book
- Mrs Rockson should enter the details and enter the totals also into the book. Differences should be investigated and corrected immediately.
- Only debit or credit adjustments should be entered in a written journal and authorised and initiated by Mr Joojo
- All batches should be numbered by the dispatch department and a record kept in the department

(iii) By the Managing Director monthly

- Check the sales ledger control account opening balance to previous control, invoices to batch summary book. Cash and discount to the cash book, adjustments to the adjustments journal, balances to the computer print and check additions
- Check bank reconciliation and in particular verify correspondence of debits with paying-in slips and that lodgements are rapidly cleared. This will detect teeming and lading
- Compare a sample of copy statements with age analysis
- Review age analysis and investigate any noteworthy item
- Check batch records in dispatch with batch summary book
- Check sequence of invoices and test check to batch records
- Sample the invoices for pricing and posting
- Compare summary day book produced by the computer with both summary and other records.

(b) The list and description of audit test:

- Sample invoices for pricing, cash, extensions, posting and analysis
- Verify sales ledger control accounts
- Verify bank reconciliation
- Sample sequence of pre-numbered invoices – several random blocks of 100
- Sample credit notes, particularly verifying authority
- Investigate all large journal adjustments to the sales ledge

For year end balances:

- Verify list with copy statements, age analysis and summary day book
- Check clearance with cash received after date
- Check old unpaid amounts and queried items with correspondence and other evidence
- Perform a sample circulation, with a bias towards larger items
- Review for bad and doubtful debt
- Check cut off
- Compare debtors with sales and review with previous year
- Review credit notes issued after date for evidence of non-stick sales in the year.

SOLUTION 5

(a) Factor which may point to going concern problems include:

<u>Financial Indicators</u>

i. Inability to meet dents as they fall due
ii. Recovering operation losses
iii. Fixed term borrowing approaching maturity without realistic prospects of renewal

iv. Excessive reliance on short-term borrowings to finance long-term assets
v. Adverse key financial ratios
vi. Dividend in arrears

Possible Mitigating Factor
i. Ability to dispose of or postpone replacement of assets without adverse effect on operations
ii. Ability to lease assets
iii. Ability to obtain new sources of funds
iv. Ability to renew or extend loans, raise additional capital or restructure debits

Operating Indicators
i. Loss f key management staff
ii. Loss of a major market franchise, license or principal supplier
iii. Significantly increased stock levels
iv. Work stoppage or other labour difficulties
v. Dependence on few products, customers or suppliers
vi. Legal proceedings
vii. Political risk

Possible Mitigating Factors
i. Availability of suitably persons to fill key positions
ii. Alternative markets
iii. Alternative customers or source of supply
iv. Continuing business by reducing level of operations
v. Response to changes in technological development

Other Indicators
i. Non compliance with capital or other statutory requirements
ii. Pending legal proceedings against the entity that may if successful result in judgments that could not be met
iii. Changes in legislation or government policies

Mitigating Factors
i. Ability to quickly comply with capital or other statutory requirement in case of default
ii. Ability to change operations in line with legislation or government policy
iii. Ability to negotiate judgment terms with the court or opposing litigants

(b) The following steps are appropriate:

1. Obtain an appropriate understanding of the company, its operations and particularly its environmental issues.
2. Evaluate whether there is any possible risk of misstatements in the financial statements as a result of environmental issue.
3. Enquire of management as to any systems or controls which are in place to identify risk, evaluate control and account for environmental matters.

4. Obtain an understanding of the control environment the client is operating within.
5. Obtain written representations from management on any environmental matters
6. Obtain evidence from environmental experts where necessary.
7. Seek corroborative evidence of any statements by management.
8. Use professional judgment to consider whether the evidence in relation to environmental matters is sufficiently persuasive.
9. Consider minutes of directors, board committee or environmental officers
10. Review documentations.