

QUESTION 1

A Professional Accountant in public practice may find that specific circumstances give rise for unique threats to compliance with one or more of the fundamental principles of the Code of Ethics. In either professional or business relationships, a professional accountant in public practice should always be on the alert for such circumstances and threats. There are however, safeguards that may eliminate or reduce these threats to an acceptable level.

Required:

- (a) Identify **two (2)** broad categories of those safeguards. **(2 marks)**
- (b) State in detail **eight (8)** safeguards in the work environment. **(8 marks)**
- (c) The Board of Directors (BODs) has engaged you as a Professional Accountant to undertake a forensic audit into the operations of FIDLAMPS LIMITED for the past two (2) years ended 31 December, 2011. On completion of the forensic audit you are required to submit a report of your findings to the appointing authority. The report should basically address the terms of reference of the assignment.

Required:

State **five (5)** sections that will be included in a forensic audit report. **(10 marks)**

(Total: 20 marks)

QUESTION 2

- (a) You are the leader of an audit team examining the balance sheet items of a client. In the list of current assets is investments valued at GHC8 million.

Required:

- (i) What will be your audit objectives in examining the balance on the Investments? **(4 marks)**
- (ii) Outline the substantive procedures you will carry out to obtain assurance of the balance on Investment. **(6 marks)**
- (b) PAMPI CONSULT, a firm of Chartered Accountants, is planning the audit of a client for the year ended 30th April, 2011. The client OBOTAN CO LTD, operates a computerized system of accounting and the financial statements for the year were prepared from the system. The Senior Partner is considering the use of computer-assisted audit techniques in carrying out the client's audit.

Required:

Identify and discuss the factors that must be taken into consideration in determining whether to use computer-assisted audit techniques in the audit.

(10 marks)

(Total: 20 marks)

QUESTION 3

- (a) You are a member of the audit team for Prekesse Ltd, a company which manufactures roofing sheets. The audit manager has informed you that on the current audit, your responsibility will be trade payables. The following schedule has been prepared by the client.

	GHC
Trade payables	
Overseas suppliers	175,000
Ababio Ltd	380,000
Others	110,000
GNRI (goods received but not invoiced)	72,000

Having reviewed last year's audit files and discussed matters with the client, you have noted the following:

- (1) During the current year the clerk who was responsible for overseas suppliers retired due to ill health. She was not replaced as the company needs to cut costs, and her work has been shared out around the rest of the accounts department.
- (2) Ababio Ltd is the sole supplier of high quality sheet steel which is used by Prekesse Ltd to build the casings for the roofing sheets. In the past, Ababio has always refused to confirm or give a year end balance. In addition, during the current year Ababio has introduced a reservation of title clause on all invoices to Prekesse.
- (3) 'Others' relates to around 100-150 small suppliers who produce specialist components.
- (4) 'GRNI' relates to goods received prior to the year end but where no invoices have yet been entered in the purchase ledger. The figure is considerably higher than last year because of problems in the computer system, which means that no purchase invoices could be processed in the week immediately following the year end.

At the briefing meeting for the audit, the manager explained that the client had set a very tight deadline for audit clearance. This is because it is currently negotiating a merger with one of its competitors, and the financial statements are needed before final completion.

Required:

- (i) Identify the main risks for payable specific to Prekesse Ltd. (2 marks)
- (ii) Produce an outline audit approach to payables for submission to the manager. (6 marks)
- (iii) Some audit firms use directional testing as part of their audit approach, with payables being tested for understatement. Identify and explain the specific audit techniques which could be used to try to identify understatement errors in the payables cycle. (2 marks)
- (b) Buildwell Construction Ltd. A civil engineering company has a chartered accountant as its Financial Controller. The company has completed its financial statements for the year ended August 31, 2012 and has called in the auditors, Integrity and Associates, to begin the audit.

On the Income Statement is an item Donation – GHC80,000. The notes to the accounts stated that Donation was composed of:

Contribution to Peoples' Alliance Party (PAP) (Political Party) - GHC50,000

Fuel for use of the Financial Controller's official vehicle for
Political Campaign - GHC20,000
Contribution to Ghana Trust Fund - GHC10,000

Investigation revealed that the Financial Controller is running for parliamentary elections in his Constituency on the ticket of the Peoples' Alliance Party (PAP).

Required:

- (i) Comment on the professional ethical implications of the Financial Controller's behaviour. (8 marks)
- (ii) Describe the proper disclosure of the Donation in the financial statements especially for tax purpose. (2 marks)

(Total: 20 marks)

QUESTION 4

Joojo Textiles Limited is a small company which manufactures sports-wear for retail stores. It has recently purchased a micro-computer to process accounting data. The company has a full-time book-keeper, Mrs. Rockson, who is responsible for maintaining the sales ledger, purchase ledger, cash book and payroll – she is assisted by a part-time book-keeper, Miss Owelewa, who also

deputises when Mrs Rockson is ill or on holiday. The managing Director Mr. Joojo, is concerned that when the sales system is transferred on to the computer, he will not be able to check the book-keeper's work as effectively as with the manual system. He has asked you to advise him on the controls which could be exercised to minimise the risk of fraud and error in the new computerised system.

With the new computerised system Mr. Joojo will continue to authorise the despatch of goods, and sales invoices will continue to be prepared manually by the despatch department from pre-numbered advice note/invoice sets – these invoices are priced by the accounts department.

A sales ledger program has been purchased from a software supplier, and no one in the company has any knowledge or experience of programming computers. The computer allows posting of invoices, credit notes, cash and discount, debit and credit adjustments. Data must be input in batches and the computer checks a manually calculated batch control total with the total value of items accepted by the computer. At the end of each run, the computer also prints an analysis of invoice expenses for posting to the nominal ledger.

At the end of each month, the computer produces:

- (a) Statements for customers
- (b) An age analysis of debtors,
- (c) A summary day book, giving the opening balance, the total of each batch processed and the closing balance for the month.

The Managing Director has some accounting knowledge and can check the sales ledger control and bank reconciliation which is prepared monthly by Mrs. Rockson.

Required:

- (a) Describe the controls which should be exercised in the computerised sales system:
 - (i) over standing data files and transaction files, which are stored on receivable discs (pen drive)
 - (ii) over input of transactions into the system
 - (iii) by the Managing Director on a monthly basis. **(12 marks)**

- (b) List and briefly describe the audit tests you would carry out on the computerised sales system at the interim and final audits. **(8 marks)**

Note: You are only required to describe the checks of the system from receipt by the accounts department of unpriced sales invoices from the despatch department. You are not required to consider the use of test packs and computer audit programs in testing the system.

20 marks

QUESTION 5

An auditor carrying out an audit planning programme is required to consider the going concern assumption regarding the entity's ability to continue in operation for the foreseeable future. In performing final review of the financial information to ensure that the financial statements give a true and fair view, the auditor is again to consider the applicability of the going concern assumption to the entity's operations. It is therefore necessary to have a knowledge of factors which may **render** the going concern assumption invalid.

Required:

- (a) Detail out financial, operational and other indicators that may render the going concern assumption invalid. Suggest possible mitigating factors. **(15 marks)**
- (b) After centuries of unfettered industrial activity, the limits of economic growth have been encountered in the appalling effect on the natural environment; global warming, polluted sea, industrial sites full of heavy materials and methane, polluted rivers and canals, etc. The response has been public awareness and various legislations. Many companies have been forced by public opinion or legislation to improve their environmental performance.

Required:

Detail out steps to be taken by the Auditor when dealing with environmental issues that could have impact on financial statements. **(5 marks)**

(Total: 20 marks)