

**NOVEMBER 2017 PROFESSIONAL EXAMINATIONS
ADVANCED AUDIT & ASSURANCE (PAPER 3.2)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

STANDARD OF THE PAPER

The paper as usual featured five compulsory questions with ten sub-questions and twelve sub-sub-questions. The questions were evenly spread over all the parts of the syllabus. The paper achieved full coverage of the syllabus and the mark allocations followed the syllabus weighting almost to the letter. The only slight deviations affected Part G, "Other Assignments" which was allocated twelve marks instead of ten and Part H, 'Reporting' which was allocated eight marks instead of ten.

In terms of examining the learning outcomes, the verbs used in setting the questions included comment on, consider, discuss, critically examine, assess, evaluate and recommend. In terms of difficulty, the paper can be graded as average. However, the rubrics were clear and there was no ambiguity in the questions.

PERFORMANCE OF CANDIDATES

Performance of candidates in this session showed considerable improvement compared to the previous session's performance. While performance cannot be described as very good, the standard achieved is better than that of the previous session as reflected in the percentage pass recorded 68.03% compared 25.78% for May 2017. What is refreshing is that many candidates displayed very good handwriting and clarity of thought, except that some candidates did not obey the rules of grammar and spelling.

As usual some candidates resorted to lengthy and unproductive preamble to answers which did not fetch any marks.

QUESTION ONE

- a) The draft accounts of your client Good Days Ltd., a shopping mall for the year ended 31 December 2016 showed the following:

	2016	2015
	GH¢million	GH¢million
Revenue	84.40	83.60
Profit before tax	5.00	4.40
Total Assets	75.00	46.80

In December 2016, management announced plans to stop the sales of ladies ware from the end of the month. These sales amounted to GH¢ 1.4 million for the year ended 31 December 2016 (2015 GH¢1.6 million). A provision of GH¢0.6 million has been made at 31 December 2016 for the compensation of redundant employees who are mainly sales girls.

Required:

Comment on the materiality of these two plans.

Note: The following materiality levels are to be used as benchmarks:

Value	%
Profit Before Tax	5
Gross Profit	½ - 1
Revenue	½ - 1
Total Assets	1 – 2
Net Assets	2 – 5
Profit After Tax	5 – 12

(10 marks)

- b) Central to a number of government investigations in various countries have been companies trading with organisations or individuals *other than at arm's length*. Such transactions were made possible by a degree of control or influence exercised by directors over both parties. Directors are responsible for the identification of such related party relationship and transactions, however the auditor has a responsibility of ensuring good reporting in that area.

You are the audit senior of an audit firm preparing to audit a group company and its subsidiaries and sub subsidiaries which also trade with companies owned by some directors of the parent company.

Required:

What *procedures and evidence* should the auditor consider to discharge his responsibility in relation to related party transactions?

(10 marks)

(Total: 20 marks)

QUESTION TWO

- a) You are the Ethics partner of the firm Minnow Associates and the following issues have been brought to your attention for a number of clients for the audit for the year ended 29 February, 2016, each case is separate:

i) **Forest Hotel Limited**

This has been an audit client of your firm for over fifteen years. The partners and audit teams have been rotated every four to five years. A review of the audit file shows that the company acquired a number of flat screen televisions for a refurbished section of the hotel. These flat screen televisions were imported from China in the names of the children of the directors to avoid paying import duties. The audit engagement partner did not make any comment on this though an audit note from the Audit Manager had requested for direction from the engagement partner on what is needed to be done on the issue.

Further investigation revealed that the Procurement Advisory Section of your firm had handled the importation and clearing of the TVs for the client.

ii) **Kwahu Microfinance Limited (KML)**

Kwahu Microfinance is a first-time audit client. The audit was acquired through a bidding process supervised by Bank of Ghana (BOG) as the previous auditors had not performed to the satisfaction of the regulator.

The Engagement partner has reported that the time and cost budgets have all been substantially exceeded due to unforeseen difficulties associated with getting reliable information for agreeing the opening balances. The current year's information and its audit, however did not seem to pose any problems.

However, a business controlled by the husband of the Audit Manager has been found to have taken a huge loan from KML just before the start of the bidding process for the audit. The engagement partner reported that this loan has been written off by the company in the year without any payments been made. The Audit Manager says she is unaware of the loan write off because she's not a director of her husband's company. She was however aware of the loan when she was asked to become the manager on the audit. The Financial Manager of Kwahu Microfinance Limited believes that this is not an audit matter.

Required:

For each issue above, discuss the *ethical issues* raised and recommend the *relevant actions* to be taken by our firm. **(10 marks)**

- b) Your assurance firm is currently auditing the financial statements of one of your major clients for the year 2016. As the engagement partner you are concerned with the quality of the audit so you want to comply with the *ISA 220: Quality control for an audit of financial statements*.

Specifically, you want to ensure that the factors involved in engagement performance regarding direction, supervision and review of the audit are properly considered. This would give you the assurance that the audit complies with professional standard and that any report issued would be appropriate in the circumstances.

Required:

- i) Discuss the important role direction plays in engagement performance. (5 marks)
- ii) Why is it important to supervise staff assigned to audit engagement? (5 marks)

(Total: 20 marks)

QUESTION THREE

- a) Sampa Sawmill Ltd. is a company located in the Eastern Region of Ghana, involved in the exportation of wood products to overseas countries. Sampa Sawmill Ltd. is of late being accused of involvement in money laundering. Sampa had been an audit client of Tetteh and Associates, a firm of Chartered Accountants for the past three years.

Required:

- i) As an Audit Manager of Tetteh and Associates in charge of Sampa Sawmill Ltd., evaluate the issues you will consider to prove or disprove the allegation. (5 marks)
 - ii) Discuss *the need for ethical guidance* for professional accountants on money laundering. (5 marks)
- b) You are the audit manager in charge of the audit of Vulnerable Company Limited which has been making losses in its operations owing to many factors including competition, impairment of some of its non-current assets and losses incurred on derivatives in its hedging activities as well as problems of complying with many laws and regulations governing its operations.

During your briefing meeting with the Engagement Partner, he drew your attention to the Question and Answer paper on Professional Skepticism issued by the International Auditing and Assurance Standards Board (IAASB) and requested you to discuss its contents with the audit team before commencement of the field work.

Required:

- i) Discuss the concept of *Professional Skepticism* and its importance in audit. (4 marks)
- ii) Assess and evaluate the areas in an audit of your client where the audit team members need to exercise a high level of professional skepticism. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- a) The Auditor General's 2011 Report expressed grave frustration about what it considered to be the widespread misuse of government funds. In 2011 alone, Ghana was estimated to have lost approximately GH¢173,174,541 as a result of financial irregularities.

The Auditor General expressed his frustration in the following terms:

“The cataloguing of financial irregularities in my Report on MDAs and Other Agencies has become an annual ritual that seems to have no effect because affected MDAs are not seen to be taking any effective action to address the basic problems of lack of monitoring and supervision and non-adherence to legislation put in place to provide effective financial management of public resources. This situation has not changed, it keeps recurring year after year to date”.

Required:

Critically examine the Auditor General's frustration by assessing the possible causes and recommend solutions to overcome the problem. **(10 marks)**

- b) Internal audit assists management in achieving the entity's corporate objectives, particularly in establishing good corporate governance. Internal audit can be involved in many different assignments as directed by management. The assignments that internal auditors will carry out depend on the particular circumstances of the company involved and their objectives.

Required:

Evaluate the contribution of the internal audit function to the effective running of an organization. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) You are an Audit Manager in the firm Taiplan Chartered Accountants, a firm in public practice registered with the Institute of Chartered Accountants (Ghana) (ICAG). Bank of Ghana (BOG) has appointed your firm to investigate reasons for the failure of DC Microfinance Limited (DCM) and your investigation has revealed the following as some of the reasons for the failure:
- i) The board of directors of the company is made up only of Mr. and Mrs. David Commodore;
 - ii) The failure of the Bank of Ghana to examine or detect the non-submission of the fidelity returns submitted to it by the company and monitor the company adequately;
 - iii) The auditors have been the auditors of the company since its incorporation over ten years ago;
 - iv) The failure of the auditors of the company to spot and question some dubious accounting treatments adopted by the company. This is partly due to the fact that the consulting arm of the audit firm has been performing all the consultancy work needed by the company since its incorporation and particularly at the time of its application for the microfinance operating permit from BOG.

The due diligence on the last audited financial statement revealed the following, among others. The balance on the company's main operating bank account in the trial balance submitted to the auditors showed that the company had a cash balance of GH¢600.22 million which agrees with the bank reconciliation statement. The cash balance on the bank statement was GH¢400.11 million. The reconciling items on the Bank Reconciliation Statements were too many and some had been outstanding in the monthly bank reconciliation statements for as long as five years.

Further investigation however, revealed that the actual cash balance on the bank account and the cash in bank was GH¢400.11 million on the date of the financial statements. The auditors requested for and received a Bank Confirmation from the company's bank which agreed with the balance in the bank statement. The bank confirmation sent to the auditors was detected to be fake and did not come from the bank. The actual confirmation from the bank by post was intercepted by the company and this has been going on for the past five years.

Required:

For points (i) to (iv) above, state for each point, and show what would contribute to the failure of the company and make **ONE recommendation** to ensure that this would not re-occur in DCM or any other microfinance company in Ghana. **(12 marks)**

- b) Your firm, Atinalp Consulting is the Auditor of Ghana Kitchen Utensils Limited, a company that was incorporated in the 1960s, as part of Ghana's industrial revolution after the Republic had attained independence. It manufactures and distributes kitchenware in the local and the West African markets. It has seen good old days but has suffered from the effects of cheap imports in the past few years.

The financial statements for the year ended 31 December, 2015 has the following note:

Going Concern

The Company incurred a net loss for the year ended 31 December 2015 of GH¢24.8 million (2014: GH¢14.4 million) and as of that date its current liabilities exceeded its current assets by GH¢37.8 million (2014: GH¢24.9 million). The Company continues to incur losses.

The directors are engaging with strategic investors to help turn the fortunes of the Company around. A strategic investor has shown substantial interest in the Company and has approached the directors of the Company with the intent of acquiring a controlling interest in the Company. In September 2015, the shareholders passed a resolution authorizing the directors to enter into discussion with this strategic investor. If discussions are successful, this strategic investor will become a major shareholder. Based on preliminary discussions, the strategic investor is expected to further invest into the operations of the Company in addition to financing the necessary acquisition of shares directly from the company.

The investments and expertise of this strategic investor are expected to ensure a change of the Company to one that is profit making. In pursuance of this transaction the company has completed a professional revaluation of its assets and equipment.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations

and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

The ability of the Company to continue as a going concern largely depends on the successful conclusion of the takeover by the strategic investor and its ability to execute plans to turn around the fortunes of the Company.

The opinion section of the audit report issued by your firm was as follows:

Opinion

In our opinion, the financial statement give a true and fair view of the financial position of Ghana Kitchen Utensils Limited as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1963 (Act 179).

Required:

Comment on the suitability of the report issued and recommend some improvement, if any, you believe would be necessary under the circumstances. **(8 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) The two materiality plans are:

- **Ladies Ware**

Revenue from the ladies ware forms part of the total revenue of the company. The relevant indicators of materiality is therefore revenue.

The ladies ware revenue as a percentage of total revenue is as follows:

$$\text{GH¢ } \frac{1.4 * 100}{84.40} = 1.66$$

1.66% is higher than the materiality threshold of ½ -1% of revenue. Therefore the ladies ware sales revenue is material to the statements of Profit or Loss and other comprehensive income.

(4 marks)

- **Provision**

The provisions should be considered in terms of its effect on the financial statements. It affects both the statements of financial position as it's a liability in the financial statements and the statements of profit or loss and other comprehensive income as it is a charge in arriving at the profit or loss in a year

Statement of Financial Position

$$\frac{\text{GH¢}0.6\text{m} \times 100\%}{\text{GH¢ } 75\text{m}} = 0.8\% \text{ of total assets}$$

The materiality threshold for total assets is 1-2% therefore the 0.8% is not material to the statement of financial position.

(3 marks)

Statement of Profit or loss and other comprehensive income

$$\frac{\text{GH¢}0.6 \text{ m} * 100}{\text{GH¢ } 5\text{m}} = 12\%$$

The materiality threshold for profit before tax is 5% therefore the 12% is material to the statements of profit or loss and other comprehensive income.

(3 marks)

b) Our procedure and evidence needed to discharge our duties in relation to related parties for this audit will include:

- Enquiries of management to disclose the related parties of the company. The related parties will include the subsidiaries, the directors, the directors companies trading with the parent company and the subsidiaries and sub-subsidiaries.
- We will have to identify the related party transactions that occurred between the parent company, its directors, subsidiaries, sub-subsidiaries, and the companies owned by the directors.
- We will check whether the transactions have been conducted at arm's length by comparing the terms of trade in respect of prices, discount and credit periods.
- We will check the treatment of the related transaction in the accounting records and the financial statements and ensure that they have been correctly treated.

- We will check the presentation and disclosure of the related party transaction in the financial statements.
- We will consider the evidence obtained and consider the audit opinion to issue depending on whether management has done the right thing and the financial statements give a true and fair view of or whether we have not been able to obtain the evidence we required, we may issue a qualified opinion or a disclaimer of opinion.

(5 points @ 2 marks each= 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Q1A. This question asked candidates to comment on the materiality of the effects of management plan to close a ladies ware section of the operations and the attendant redundancy payment to affected employees. Candidates needed to calculate ratios using figures in the scenario of the question and interpret the results. The consequence of the loss of revenue from ladies ware sales was correctly treated by many candidates but not all candidates could relate the provision for redundancy payments to both the statement of financial position (liability) and statement of profit and loss and other comprehensive income (expense). Performance was good.

Q1B. Candidates were required to provide procedures and evidence needed by an auditor to discharge his responsibilities in relation to related parties. Many candidates were able to provide the right answers. Good Performance.

QUESTION TWO

a)

i) Forest Hotel Limited

The threats to independence here are:

- Being auditor of the company for 15 years:
- Familiarity as we have been the auditor for many years.

Evaluation of this threat: not very serious as the firm has a means of minimizing the threat by ensuring a rotation of partners and audit team on regular basis.

The handling of the importation and clearing of the TVs for the client by the Procurement Advisory Section of our firm

The threat to independence is Self-review.

- This threat is very significant as the audit team now has to perform an audit of the acquisition and deal with the suspected tax avoidance by use of names of individuals to avoid import duties.
- Our firm uses a different team (section) to perform the function other than persons in audit department which partly eliminates the treat of self-review.
- This does not entirely absolve the firm from prosecution by the Ghana Revenue Authority for aiding the company to avoid tax.
- There appears to be no safeguard here except to advise the company to volunteer to pay the import duties to GRA and ensure that in future our advisory sections seek for engagements outside our audit clients.
- It is safe to assume the additional fees from the non-audit work may not pose an intimidation threat as the firm appears to be large, with various sections. If that were the case, the firm could decide whether to concentrate on Audit or rather leave audit and concentrate on non-audit work depending on the economy of scale of the profitability of the two assignments.

(Any 5 points for 5 marks)

ii) Kwahu Microfinance Limited

- Exceeding the time and cost budgets substantially due to unforeseen difficulties associated with getting reliable information for agreeing the opening balances means our firm could possibly have engaged in lowballing when preparing our bid since this should have been anticipated.

The Code of Ethics for Professional Accountants frowns on this and requires that firms guide against this. The effect may not be serious as it will affect the first year audit only. The firm must, however, guard against this as it could lead to compromising the quality of audit work.

- The second issue is that the Audit Manager seems to have become financially involved with the client through her husband. The threat is serious as it could affect the quality of audit work since the Audit Manager is a very important member of the audit team.

The Audit Manager's husband got his loan prior to our audit appointment and it is difficult to establish her personal involvement in the writ-off of the loan of her husband's business so the firm cannot institute any disciplinary action against the Audit Manager. The Audit Manager was however aware of the loan her Husband's business had with KMF when she was asked to become the manager on the audit.

- If our firm has regulations for voluntarily giving this information then she could be subject to disciplinary procedures. If the firm does not have this independence declaration as part of its processes at the beginning of each year for existing clients and on acquisition of any significant audit engagement before a team is assigned then this must be introduced.
- To eliminate the threat to the independence of the firm, the Audit Manager must be removed from the audit and a review performed on the audit work she has done so far to ensure no audit quality compromises has taken place, and if so these must be rectified.

(5 marks)

b)

i)

Some important roles direction plays in engagement performance are:

- Direction provides an opportunity for the engagement partner and the audit manager to brief the audit staff about the objectives, time and nature of the work they are to carry out and the responsibility of each member of the engagement team.
- The briefing points out risks and possible problem areas which may confront the engagement team and who they must turn to when they encounter such cases
- Direction enables the audit team to understand how their individual work contributes to the achievement of the overall audit work and the need for coordination and cooperation among the audit staff
- Direction also involves providing the audit staff with the planning documents and the audit program which clearly outlines the work to be done by each member of the audit/assurance team to avoid repetition or overlaps
- Direction therefore helps the assurance team to know the direction in which they are heading during the performance of their work. It therefore clears any confusion and ambiguity associated with the work
- Briefing enables members of the assurance team to understand the detail approach to the performance of the engagement. This understanding may contribute to achieving the objective of the engagement effectively and efficiently.

(Any 5 points for 5 marks)

ii) When work is assigned to staff, the engagement partner and the audit manager remain ultimately responsible for execution of the job. **It is therefore important for those charged with supervisory responsibility to take proactive action to ensure that:**

- They check on the staff performing the engagement to determine whether they understand the work they are performing.

- They are performing the work in the manner required
- Whether the staff are encountering any difficulties in the execution of their various task and to help them solve those problems.
- Problems identified during the audit supervision of staff will enable the engagement partner and the manager to amend the audit programme so that the difficulties may be overcome
- Supervision therefore enables the engagement partner to discover problems which will affect the quality of performance and early completion of the assignment early enough before they derail the whole process

(5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Q2A. (i) This question is on Ethics and involved an audit firm, Minnow and Associates auditing the same client, Forest Hotel Limited, for fifteen years and also getting involved in the import of TV sets for the company through the Procurement Advisory Section of the firm. The TV sets were imported in the name of the children of the owners of the business to avoid payment of taxes, a clear case of tax evasion.

Candidates were required to discuss the issues and recommend relevant actions to be taken by the firm. The ethical issues, namely threats to independence (familiarity threat-15yrs on the audit) and self-review threat emanating from the handling of the import of the TV sets were correctly discussed by many candidates. The recommendations in respect of the familiarity threat were correctly given but not all the recommendations in respect of the self-review threat and the tax evasion were appropriate. Some candidates suggested reporting the client to the police. Mixed Performance.

Q2A. (ii) This question involved the following:

A firm resorting to lowballing to obtain an audit engagement resulting in over-run of the time and cost budgets for the first year audit.

Many candidates could not identify the lowballing inherent in the question for proper discussion.

The husband of the audit manager obtained a loan from the client prior to the firm securing the engagement, which loan was written off in the year of audit. The relevant issues were what role did the Audit Manager played in getting the loan written off since she was aware that the husband had taken the loan and whether the firm has a policy of voluntary disclosure of such matters. The case did not include sufficient details on those issues but the ultimate recommendation was for the removal of the audit manager from the engagement team. Average performance.

Q2B. (i-iv) These sub-sub-questions required discussion of the role and importance of direction and supervision in engagement performance.

The question on supervision was well answered but that of direction was not. Some candidates wrote that direction helps in the planning and assignment of engagement

teams, forgetting that planning and assignment of engagement teams precede direction in an audit engagement. Mixed Performance.

QUESTION THREE

a) (i.) **The indications of possible money laundering are;**

- Broadly, transactions that appear inconsistent with a client's known legitimate (business or personal) activities or means: unusual deviations from normal account and transactions patterns.
- Any situation where personal identity is difficult to determine.
- Unauthorised or improper recorded transactions; inadequate audit trails.
- Unconventionally large currency transactions, particularly in exchange for negotiable instruments or for the direct purchase of funds transfer services.
- Apparent structuring of transactions to avoid dealing with identification requirements or regulatory record-keeping and reporting thresholds.
- Transactions passed through intermediaries for no apparent business reason.
- Introduction of a client by an overseas associate or financial institution based in a country or jurisdiction known for drug trafficking and production, other financial services are bank secrecy.

(1 mark each for any 5 valid points)

iii) **Need for ethical guidance for professional accountants**

- There is the need for ethical guidance on money laundering because there is conflict between the accountant professional duty of confidentiality in relation to his client's business.
- The duty to report suspicions of money laundering to the appropriate authorities is required by law.
- Disclosures in bad faith or without reasonable grounds would possibly lead to the accountant being sued for breach of confidence.
- Professional Accountants are not in breach of their professional duty of confidentiality if they report in good faith their knowledge or suspicions of money laundering to the appropriate authority.
- Auditor's duty of confidentiality will be breached if they report in good faith, any money laundering knowledge or suspicions to the authority. Statutory protection also applies where reports are made in good faith.

(1 mark each for any 5 valid points)

b)

i) **Professional Skepticism** is hard to define but is "fundamentally a mindset" which is linked to the ethical principles of objectivity and independence. It means being alert to evidence that contradicts evidence already obtained or which casts doubt on the reliability of documents or explanations, provided or which may indicate fraud.

It is important in audits because it is part of the auditor's "skill set" and it is part of professional judgement. It affects decisions about the procedures to be performed, the sufficiency and appropriateness of evidence obtained, the validity of management's financial reporting judgments.

(4 marks)

ii) These areas in an audit involve exercise of judgement and therefore high level of professional skepticism is needed:

- **Fraud**

Where management is involved in fraudulent financial reporting, they could provide the auditor with representations which may mislead the auditor or contradict evidence obtained elsewhere

- **Accounting estimates**

Auditors must ensure that the assumptions used by management are reasonable. Since making accounting estimates require exercise of judgement by management, an opportunity is provided for bias and fraud.

- **Going Concern**

Auditors must ensure whether management plans are really feasible and the assessment of going concern by management was done objectively.

- **Related Party Transactions**

Related Party relationships and transactions where transactions may not be conducted at arm's length or be outside the normal course of business. This is another area for manipulation by management.

- **Laws and Regulations**

For example, where non-compliance may call into question going concern and determination whether an act of omission or commission amounts to non-compliance which may require the services of legal experts.

(4 points @ 1.5 marks each = 6 marks)

EXAMINER'S COMMENTS

Q3A. (i) Candidates were required to evaluate issues to be considered to prove or disprove whether an audit client was involved in money laundering.

The question required knowledge of the possible indicators of money laundering. While some candidates were able to mention and evaluate the relevant indicators, other candidates gave the procedures to be performed to discover money laundering. Mixed Performance.

Q3A. (ii) The question demanded the need for ethical guidance for professional accountants on money laundering. Some candidates provided the right answers while other gave the relevant guidance instead. Mixed Performance.

Q3B. (i) Candidates were required to discuss the concept of professional scepticism and its importance in the conduct of an audit. The concept was well discussed but the importance thereof was not properly brought out. Good Performance though.

Q3B. (ii) This sub-sub-question as a sequel to question 3b (i) demanded assessment and evaluation of areas in an audit where audit engagement team members need to exercise high level of professional scepticism. Many candidates were able to mention the relevant areas but they could not bring out clearly why high-level of scepticism should be exercised.

On the other hand some candidates took just one or two areas and wrote tons of irrelevant material thereabout. Again mixed performance.

QUESTION FOUR

(a)

- **Failure on the part of the Auditor General himself:** The constitution gives the Auditor General power of disallowance and surcharges. So far it appears the auditor General has not exercise this power effectively and therefore people found to have misappropriated funds have not been made to refund such monies. The Auditor General must therefore start exercising the powers entrusted to him to ensure recoveries of the amount misappropriated in the public sector.
- **Ineffectiveness of the work of Public Accounts Committee:** The Public Account Committee is required to ensure implementation of the recommendations in the Auditor General's report but after its public hearing on the audit report, it appears no concrete action is taken to get offenders to make restitution to the State in respect of amounts misused. This situation does not help to strengthen the Auditor General's functions of accountability to ensure proper use of public funds
- **Ineffectiveness of the Audit Report Implementation Committee (ARIC):** Audit Report Implementation Committee are mandated under the audit service Act 2000 to ensure that implementation of all audit report recommendations from both the Auditor General and Internal auditor from this respective organisations. But the committee as presently constituted by the act are dominated by internal members whose actions are reported on in the reports. This internal members are reluctant to enforce the recommendations which affect them and the external members have no means of forcing them to do so. The composition of ARIC membership should be changed to bringing in more independent external members who can enforce the implementation of the audit report recommendations.
- **Lack of linkage between the Auditor General's office and the law enforcement agencies:** Currently there is no requirement for the Auditor General's report to be referred to the law enforcement agencies such as the police, EOCO for investigation to be carried out and report made to the Attorney General's office for prosecution of offenders after the Public Accounts Committee has deliberated on

the report. There is the need to amend the Act to provide the needed linkage between the auditor General and the law enforcement agencies to prosecute persons known to have miss used state funds.

(4 points @ 2.5 marks each = 10 marks)

b) **Internal audit assignment involve the following areas and their contributions may be viewed as follows:**

- **Testing operational or financial controls.**
This may help the auditors to discover deficiencies in the design and operation of internal control and enable them to make recommendations to management to rectify the deficiencies and to ensure strict adherence to the required controls. This should result in the effectiveness and efficiency of the control systems.
- **IT system reviews.**
Information technology has become pervasive in the operation of entities. Proper functioning of the IT systems will ensure orderly conduct of transmitting and generation of information on the operations. System review carried out by internal auditors should ensure the system is functioning effectively and efficiently to enable management achieve the objectives of the entity.
- **Value for money reviews**
In the non-profit entities the objective is to serve the needs of the various stakeholders. Value for money reviews ensures that the entity or the organisation is fulfilling the need of its stakeholders through the proper use of resources at the minimum cost for higher output.
- **Fraud investigations**
Fraud can results in organisation losing valuable assets and this may affect its survival and ability to achieve its objectives. Investigation carried out by internal auditors can help to identify the perpetrators, quantify the loss and help to recover it and make recommendations to prevent future recurrence and this can contribute to survival of the entity
- **Review of compliance with laws and regulations**
The existence and operations of organisations are governed by laws and regulations, non-compliance of which may results in various sanctions including fines, damages and outright prohibitions of the operations of the entity. Reviews of compliance with laws and regulations by internal audit will help management to avoid the consequence of non-compliance to ensure the survival of the organisations.
- **Customer service reviews**
The continued survival and growth of an organisation depends on continuous patronage of services and products by customers. Customer service reviews

conducted by internal auditors should ensure that customers are satisfied with the services of the organisation so that the organisation can survive.

(5 points @ 2 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Q4A. Candidates were to critically examine the Auditor General's frustration and lamentation about non-implementation of his recommendations on financial malfeasance in MDA^s and MMDA^s year in year out. Many candidates misunderstood the question as requiring the causes of the malfeasance instead of why the Auditor-General's recommendations were not implemented. Some candidates understood the question but could not provide enough points. Not good performance.

Q4B. This question required evaluation of internal audit function to the effective running of an organisation. The answers to this question should first touch on the various functions performed by internal audit and how they contribute to the effective running of organisations. Many candidates just listed the benefits that organisations could derive from effective and efficient internal audit without touching the functions themselves. Average performance.

QUESTION FIVE

a)

i) **The board of directors of the company is made up only of Mr. and Mrs. David Commodore.**

- This does not promote sound corporate governance. A company that has public accountability (it holds deposits from the public) should not have only a married couple as its board.

(1.5 marks)

Recommendation

- BOG should require that all Microfinance Institutions (MFIs) should have a broad base blend of executive and non-executive directors who are persons respectable in the society.
- Such non-executive outside directors will ensure that decisions taken will take the interest of public depositors into consideration to knowing that their reputation will be at stake if the MFI fails.

(1 point for 1.5 marks)

ii) **The failure of the Bank of Ghana to examine or detect the non-submission of the fidelity returns submitted to it by the company and monitor the company adequately;**

- This means BOG will not be able to forecast the failure of an MFI and put in measures to pre-empt the failure in full or even minimize its impact on depositors.

(1.5 marks)

Recommendation

- BOG will need to open regional and district offices or install software that will alert it of non-submission and of poorly-performing MFIs.
- It is also recommended that all MFI must be made to install Banking software that can automatically send the prescribed fidelity returns to BOG on the pressing of a button.

(1 point for 1.5 marks)

iii) **The auditors have been the auditors of the company since its incorporation over ten years ago.**

- This leads to familiarity that erodes the independence of the auditors.

(1.5 marks)

Recommendation

- MFIs, like all other institutions regulated by BOG, should be made to change their auditors after every five years.

(1 point for 1.5 marks)

iv) **The failure of the auditors of the company to spot and question some dubious accounting treatments** adopted by the company due in part to the fact that the consulting arm of the audit firm has been performing all the consultancy work needed by the company since its incorporation and

particularly at the time of its application for the microfinance operating permit from BOG.

- This is the results of familiarity, and self-review as well as inability of auditors to stand up to management after compromising their independence.

(1.5 marks)

Recommendation

- BOG should require that the constitution or articles of association should not allow the auditors of the company to perform non-audit assignments for the company apart from Corporate Tax.
- This will make the auditors aware of the need to maintain their independence avoid conflict of interest situations.
- Auditors found not performing their duties to the level expected of them must be reported to IGAG by BOG.

(1 point for 1.5 marks)

c) Suitability of the report

The report is not suitable under the circumstances as there is the need for an EMPHASIS OF MATTER paragraph immediately after the opinion under ISA 560 on the note on Going Concern and Subsequent Events. This must, however state clearly that the inclusion of the Emphasis of matter is not a qualification of the opinion in respect of the matter.

(4 marks)

The paragraph could read like:

Emphasis of Matter

We draw attention to the note ... to the financial statements which indicates that the company incurred a net loss of GH¢24.8 for the year ended 31 December 2015 and, as of that date, the company's current liabilities exceeded its current assets by GH¢37.8M. The note states that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Q5A. (i-iv) These sub-sub-questions were on Other Assignments (part of the syllabus) and involved the appointment of auditors by Bank of Ghana to investigate the causes of the failure of a microfinance company. The issues involved determination of roles played by various persons in the collapse of the company and appropriate recommendations to forestall the recurrence of such failures of microfinance companies in the future.

Many candidates were able to correctly identify roles played by various persons in the failure of the company and prescribed the correct remedies needed. Very Good Performance.

Q5B. Candidates were required to criticise an audit report and suggest necessary improvements needed to make it appropriate. The scenario was that the auditor issued an unmodified report with an unmodified opinion on the financial statements of a client when the financial statements contained a note indicating significant going concern doubt. While many candidates were able to point out that the going concern note did not warrant an unmodified report with unmodified opinion, some candidates were not able to prescribe the required improvement, namely retention of the unmodified opinion but that there is the need to include an emphasis of matter paragraph in the report. They instead recommended a qualified opinion or an adverse opinion. Mixed Performance.

CONCLUSION

The full coverage of the syllabus achieved in this session should be maintained. However, the level of difficulty of the questions should be raised by examining the higher learning outcomes such as analysis, synthesis and report writing. Candidates should be reminded about the correct use of the English Language and the need to pay attention to the requirements of the questions to help them provide the right answers.

Again candidates should be reminded to avoid lengthy and unproductive preambles to answers which did not fetch any marks but result only in waste of precious time of the candidates and markers.