

**MAY 2019 PROFESSIONAL EXAMINATIONS
ADVANCED AUDIT & ASSURANCE (PAPER 3.2)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

STANDARD OF THE PAPER

The standard of the paper is fairly high. The verbs used in setting the questions include appraise, recommend, prepare a checklist, discuss, analyse and evaluate. Candidates were tasked to use analytical and evaluative skill to answer the questions. The paper covered ninety (90) percent of the syllabus. Section G – “other assignments” featured two questions with mark allocation of 20 instead of 10. This situation resulted in Section E – “internal audit function” being left out. The solutions adequately responded to the requirements of the questions. The marking scheme based on the solutions was structured with fairness to the candidates in mind.

PERFORMANCE OF CANDIDATES

Looking at level of difficulty of the questions, candidates were expected to have performed very well but that was not the case. It appeared some candidates did not take time to understand the requirements of the questions. However reading through the answers it emerged that candidate did individual work with no sign of copy work as no two answers appeared the same. This time candidates did not stray with the columns reserved for examiners and moderators in the answer booklets. However some candidates put page numbers in the space for question numbers which confused examiners at the initial stages of the marking.

Even though it was evident that some candidates did not have the understanding needed to provide the right answers owing to lack of adequate preparation, there was no evidence of copy work or attempt to cheat. Answers provided represented individual effort as no two answers looked the same.

The level of difficulty of the question should have resulted in higher performance by candidates. Performance this diet was better than the performance in the previous diet. This is evident from the percentage passes achieved in the two diets – May 2019 pass rate was 39.39%, pass rate for November 2018 was 36.62%.

It was evident that many candidates have the knowledge but lack the ability or skill to apply the knowledge to solve problems.

QUESTION ONE

Abuakwa Ltd (Abuakwa) is a multinational mining group which is involved in different operations. The draft financial statements for the year ended 31 March 2019 show the following:

Financial Statement Extracts	2019 (draft) GH¢million	2018 (audited) GH¢million
Revenue	30.60	28.08
Profit before tax	3.12	3.00
Total net assets	29.76	27.24

You are the manager responsible for the audit for the year ended 31 March 2019. You have just visited the client's premises to review the audit team's work to date. The audit senior has drafted the following "points for the attention of manager".

- On 12 March 2019, an explosion occurred in one of Abuakwa's premises, destroying about one quarter of the premises. Luckily, the explosion happened at night when the premises were empty and there were no injuries to any persons. Structural engineers and surveyors are currently assessing the stability of the remainder of the premises and it is, as yet, unclear whether they can be repaired or will need to be demolished and rebuilt in their entirety.

In the last few days, notifications have been received from the owners of four nearby businesses claiming that the structural integrity of their premises may have been compromised by the impact of the explosion.

They also advised that structural engineers are currently assessing their premises to ensure they are still safe. These business owners have formally notified Abuakwa that if their premises were adversely affected by the explosion, they will claim an "appropriate and justifiable" level of compensation from Abuakwa.

Abuakwa's insurers have been informed but at this point are refusing to comment on the situation until, they say, all the facts are clear in relation to the explosion and its effects.

(8 marks)

- Abuakwa acquired a property in April 2018 at a cost of GH¢2.64 million. The property was not in a good state of repair but Abuakwa needed an office space for critical administration functions in a central location and moved some staff in immediately. In January 2019, more suitable accommodation became available for the staff who were quickly relocated. A decision was taken to sell the property. Hence, it was decided not to provide any depreciation on the property in respect of the year under review.

However, significant remedial work was needed before the sale could be completed. This was commenced in early February 2019. The cost of this work is being expensed as 'Repairs and Maintenance' as incurred.

The property has a reserve price of at least GH¢4.2 million at a public auction scheduled for 30 June 2019. The property is classified as 'Held for Sale' at the year-end under **IFRS 5: Non-current Assets held for Sale and Discontinued Operations** at a value of GH¢4.2

million and a gain of GH¢1.56 million has been recognised in the draft Consolidated Statement of Profit or Loss and Other Comprehensive Income. **(8 marks)**

- c) In January 2019, Abuakwa acquired 53% of the equity shares of Tanoso Ltd for GH¢2.04 million. The company has been accounted for as an associate company and the results have not been consolidated. The group finance director has given two reasons for this treatment. Firstly, the activities of Tanoso Ltd are very different to those of the rest of the group, and secondly Tanoso's financial systems has not been integrated with the group's Accounting system. **(4 marks)**

Required:

In respect of each of the above issues, critically appraise the matters that should be considered and the audit evidence that should be documented in undertaking a review of the audit working papers and the financial statements of Abuakwa for the year ended 31 March 2019.

(Total: 20 marks)

QUESTION TWO

- a) Your audit firm, Adjaye-Gyamfi & Co. has just taken on a new client, Ablordey Ltd (Ablordey), a very successful health club that provides gym and fitness services. The Company operates a chain of fitness centers with wide range of workout equipment, solarium rooms, fitness sessions, nutritional planning, changing rooms, and locker facilities.

You have just been informed that your firm has received an invitation to tender for the audit of the company that owns Gyms Ltd., a major competitor of Ablordey. The Managing Director of Ablordey, Kusiwaa, is an old college friend of your audit manager and it was through his connection that your firm was able to tender for its audit. You have been assigned as senior auditor for Ablordey.

On a recent visit to your office, Kusiwaa stated that she would like to extend an offer that all staff of Adjaye-Gyamfi & Co. would be eligible for a special membership rate, which is 50% of standard membership rates and that entitles the member to 75% off special classes.

She proposed that you sit on the board of directors at Ablordey as a non-executive director. Additionally, she proposed that your firm confirm, as part of the audit, the figures on an insurance claim to be submitted in respect of damage caused by a burst water pipe. The pipe burst during a spell of cold weather in the main gym area prior to the year end.

Required:

In the context of the above scenario:

- i) Evaluate **FOUR (4)** ethical threats (real or perceived) which may affect the independence of your firms audit of Ablordey; and **(4 marks)**
- ii) For each threat, recommend how it might be eliminated or mitigated to a satisfactory level. **(6 marks)**

- b) A Chartered Accountant in practice should agree to provide only those services that they are competent to perform. Before accepting a specific client engagement, they should consider whether acceptance would create any threats to compliance with the fundamental principles. A Chartered Accountant in practice should evaluate the significance of identified threats associated with an engagement, if they are other than clearly insignificant, safeguards should be applied as necessary to eliminate them or reduce them to an acceptable level.

Required:

Recommend **FIVE (5)** safeguards necessary to eliminate or reduce threats associated with accepting ***new engagements***. **(5 marks)**

- c) You are the Quality Control partner of a newly established medium sized firm of Chartered Accountants.

Required:

Prepare a checklist for assessing ***quality of audit engagements*** with regard to ***planning of audit***. (Any **TEN (10)** points). **(5 marks)**

(Total: 20 marks)

QUESTION THREE

- a) Musah Diara is a Malian resident in Ghana. He has established Tagoe Company Ltd (Tagoe) which engages in trading in West African countries; Ghana, Nigeria and Mali. Musah is always funded by his brother who is also a resident in Ghana. Musah's brother does not have a bank account in Ghana. He always gives huge cash to Musah who buys goods in Ghana and sells it in Nigeria or Mali. He pays the profit into Tagoe's account in Ghana and bank the amount given to him by his brother into his brother's account in Mali.

Required:

You have been engaged to audit Tagoe. Discuss the ***risk you are likely to encounter*** in this audit, ***specifying your expectation of the risk format*** and the ***action you have to take***. **(10 marks)**

- b) You are the audit manager in charge of training in one of the audit firms in Ghana. The Institute of Chartered Accountants (Ghana) invited you to be a resource person of a Continuing Professional Development (CPD) programme to be organised. You are to talk on Professional Scepticism in an audit of Financial Statements.

Required:

Identify and discuss the matters that you will include in your training material.

NB: Your answer should consider the IAASB Q &A paper on professional scepticism.

(10 marks)

(Total: 20 marks)

QUESTION FOUR

- a) The Minister of Finance in his mid-year review of the national budget hinted that government payroll may be outsourced. The main reason being the guarantee of cost. In April 2017, a bio-metric exercise conducted by SSNIT ensured that 27,000 ghost names were identified and removed from government payroll. In the same year, 23,000 ghost names were removed as a result of headcount of government employees. Resulting from these exercises, GH¢250 million was saved in 2017.

Required:

- i) Discuss the effects of payroll outsourcing in this stance. **(5 marks)**
- ii) Analyse what the service user auditor must do in course of his duties when the outsourcing programme is implemented. **(5 marks)**
- b) After a glamorous swearing-in ceremony, you are elected the chair of the audit committee of Petroleum Commission, Ghana, a state owned organization.

Required:

Discuss how you would execute your stewardship in the first year of your tenure. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) You are the external auditor of Mankani Motors (MM), a listed transportation company that hires vehicles to different companies. MM has about 650 vehicles in total, consisting of Vans and Lorries. Occasionally, the vehicles break down or are involved in road traffic accident. If a vehicle is badly damaged or suffers a serious mechanical fault, it is Segbefia's job to inspect the vehicle and to make a decision either to have it repaired or written off and sold for the residual value. Segbefia is a qualified mechanic, with many years' experience of working with heavy goods vehicles and has excellent contacts in the trade. In cases where he decides to scrap the vehicle, he will usually dispose of it to a contact in fairly close proximity to where it has broken down or been crashed.

The CEO of MM has been reviewing some statistics produced by the company. She has noticed an apparent anomaly in relation to Segbefia's work. Up to about one year ago, Segbefia recommended scrapping about 15% of the vehicles he inspected, irrespective of whether they had broken down or been involved in an accident. However, in the last 12 months he has recommended scrapping nearly 90% of broken-down vehicles, but only about 10% of the vehicles that were involved in accidents. The CEO is concerned that Segbefia may be involved in some kind of fraudulent or "irregular" activity. The CEO has asked you, as an external auditor, to conduct a discreet investigation to discover if this is indeed the case and, if not, to produce a report that explains Segbefia's seemingly anomalous behaviour.

Required:

- i) Appraise the extent to which the external auditor is the ***most appropriate person*** to carry out such an investigation. **(6 marks)**
- ii) Analyse **FOUR (4)** matters to be taken into consideration before deciding whether or not to accept this appointment in addition to continuing as auditor. **(4 marks)**
- b) You are the audit manager of Ashiyie Ltd, a private indigenous company that manufactures and retails furniture. Summary draft and audited results show the following:

	2018 (Draft) GH¢m	2018 (Audited) GH¢m
Revenue (for the year to 30 June)	54.0	51.6
Profit before taxation (for the year to 30 June)	2.4	1.8
Total assets (as at 30 June)	37.2	28.8

The following points should be considered in the drafting of the Audit Report.

- i) Ashiyie Ltd leases one of its main retail facilities from a partnership controlled by its Chief Executive Officer (CEO). Your review of the lease indicates that it costs Ashiyie about GH¢60,000 more per annum than would normally be expected in an 'arm's length' transaction. Ashiyie refuses to disclose this related-party transaction in the notes to the financial statements for the year ended 30 June 2018.
- ii) Ashiyie has one small subsidiary in Rwanda. Restrictions on the repatriation of earnings from this country were introduced in July 2018 and remain in place. As a result, Ashiyie has decided to account for the subsidiary on an equity basis this year. You are satisfied as to the appropriateness of this change and it is fully disclosed in the financial statements.

iii) During the audit, you discovered that inventory valued approximately GH¢1.2 million had been excluded from the financial statements of the company. After discussing this with management, you are satisfied that it was an unintentional oversight. The error was corrected prior to the conclusion of the audit.

Required:

Evaluate the implications of matters (i), (ii) and (iii) for the Audit Report for the year ended 30 June 2018. **(10 marks)**

(Total: 20 marks)

SOLUTIONS TO QUESTIONS

QUESTION ONE

a) Matters to be considered

- This event occurred before the period end and so must be fully reflected in the financial statements for the year ended 31 March 2019.
- The explosion will mean that the property and other assets that were affected are probably impaired in value and this impairment will need to be quantified and reflected in the financial statements (IAS 36).
- It has also created a potential liability to the owners of the other businesses who claim to have been affected. This may need to be quantified and disclosed in the financial statements although there is currently so much uncertainty in this regard that disclosure may not be required. (IAS 37)
- There is also the possibility of an off-setting contingent asset in the form of the potential for an insurance claim. It is unlikely, however, that this could be seen as virtually certain at this point and so it will not be accrued in the financial statements. It may, however, be noted depending on how satisfied the company is that it will be received.

(4 points for 4 marks)

Audit evidence to be documented

- Details of the explosion and such reports about it as may exist e.g. to the Health and Safety Authority, Environmental Protection Agency, to the Insurers etc.
- Preliminary reports from the surveyors and structural engineers.
- All correspondence with the insurance company including the insurance policy and evidence that it has been paid up to date.
- The notification of claim from the other business owners and copies of any legal correspondence with them.
- Minutes of board meetings at which the explosion was discussed. In particular, the cause will need to be established to eliminate (or mitigate) the susceptibility of the company to a recurrence.

(4 points for 4 marks)

b) Matters to be considered in this case are as follows:

- **Materiality:** The matter under consideration is clearly material. The cost of the property acquired is almost 8.9% of total net assets.
- The risk of material misstatement relates to the carrying value of property plant and equipment and charges/credits to Statement of Profit or Loss or other Comprehensive Income.
- The property is incorrectly classified as "held for resale". IFRS 5 Paragraph 7 states that in order to qualify as "held-for-sale" an asset "must be available for immediate sale in its present condition". The work is evidently continuing as at 28-2-2019 and so the asset should not be classified as held for sale. It should now be reclassified as property, plant and equipment.
- It therefore follows that the gain of GH¢1.56 million should not have been recorded and that the asset should have been depreciated for the year.

- It may be inappropriate to expense the cost of the so-called repairs under “repairs and maintenance” as they may be more in the nature of capital expenditure especially considering that the purpose is to ready the property for resale.

(4 points for 4 marks)

Audit evidence expected to be available would be as follows:

- Contact of purchase (invoice) executed in April 2018.
- Evidence of payment being made for assets (bank transfer, bank statement or the like)
- Evidence of making the premises ready for occupation by staff and evidence of staff subsequently
- Moving out. (for example, invoices paid to companies for relocating equipment etc)
- Minutes of meetings authorising purchase and subsequent resale of property.
- Invoices and other evidence in respect of repairs and maintenance expenses.

(4 points for 4 marks)

c) **Matters to be considered in this case are as follows:**

- This would appear to be a material transaction representing, as it does, nearly 6.9% of the total assets of Abuakwa Ltd.
- Unless there are any unusual circumstances not mentioned in this case study, a holding of 53% would imply that Abuakwa now has control of Tanoso Ltd and so it should be treated as a subsidiary.
- Neither of the reasons for non-consolidation put forward by the Group finance Director can be considered valid. The only possible valid reason for non-consolidation would be if the purchase was completed with the intention of resale and if the control was, therefore, intended to be temporary.
- In the circumstances, therefore, the entries made in respect of the equity accounting should be reversed and Tanoso Ltd should be consolidated into the Group financial Statements.

(2 points for 2 marks)

Audit evidence expected to be available would be as follows:

- Evidence of the purchase of, and payment for, shares in January 2019.
- Board minutes authorising the purchase, together with rationale for purchase (to confirm that the acquisition is not temporary)
- Documents such as share register and company search from regulatory authorities confirming Abuakwa as majority shareholder.
- Working papers showing the entries relating to the purchase using the equity method and, subsequently,
- the acquisition method (e.g fair Value and goodwill calculations as required by IFRS 10 and IFRS 13)
- Organisations charts or other documentation showing how control is exercised over Tanoso on a day-to-day or contrary evidence if it is claimed that it is not so controlled.

(2 points for 2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on Audit of Historical Financial Statements comprised three sub-questions with total marks of 20. Knowledge and understanding of subsequent events, IAS 36 -Impairment of Non-current Assets, IAS 37-Provisions and Contingencies and conditions for consolidation of subsidiaries to answer the questions correctly.

- a) Some candidates could not identify whether the event in the first sub-question occurred before or after the end of the period for the correct treatment of the effect of the explosion. Some candidates were able to appraise the relevant matters and give the required audit evidence needed to ensure that the effect of the explosion was correctly treated in the financial statements.
- b) This question required knowledge of IFRS 5 – Assets held for sale and discontinued operations. Many candidates were able to provide the right answers.
- c) This question involved acquisition of shares in a company and consideration of whether it constitutes a subsidiary and should be consolidated or not, and to determine whether management reasons for non-consolidation was valid or not. Some candidates rightly rejected management reasons for not consolidating the subsidiary on account of nature of business being different from that of the parent.

QUESTION TWO

a)

i) **Ethical threats**

- **Staff membership rates at Ablordey - self-interest threat**

Such a benefit could cause a self-interest threat to the audit, because the recipients may not want to lose their benefit, and therefore be biased in their audit work or not seek adjustments where there are material issues in the financial statements.

- **Partner invited to sit on the board - familiarity threat**

If the partner were to sit on the board of directors, there is a risk that the partner could lose their audit objectivity as they may start identifying too closely with the company and its other directors. There is also a risk that the audit partner may start taking management responsibility at Ablordey Co.

- **Assurance re insurance claim - advocacy threat**

Audit firms must always ensure that accepting other services does not impact on audit objectivity, whether due to the amount of fees relating to the service or as a result of the nature of the service itself.

- **Conflict of interest**

Adjaye-Gyamfi &Co has been invited to tender for an audit which will involve Ablordey's major competitor, Gyms Ltd. It can be appropriate for audit firms to audit competitors, but the clients involved might feel that there is a threat to client confidentiality and may prefer to seek other auditors in such a situation

(4 points well explained @ 1 mark = 4 marks)

ii) **Management of threat**

Self-interest threat

- Auditors are not allowed to accept such benefits unless their value is trivial and inconsequential. In this case, the value of a reduced membership of a spa is unlikely to be trivial and inconsequential to audit staff members and therefore Adjaye-Gyamfi &Co should reject this offer.

Familiarity threat

- Auditors are prohibited by the Code of Ethics from acting as a director for their clients. You should explain this to the Managing Director and politely decline the invitation.

Advocacy threat

- The partners should discover more about the size and nature of this engagement to determine whether it will affect Independence. In particular they should determine whether such an engagement would put the firm in the position of advocating Ablordey's position to the insurance firm, as this could cause an insurmountable barrier to independence. They should also monitor the level of fee

income this would earn Adjaye-Gyamfi &Co from all work performed for Ablordey Co to ensure it does not cause a self-interest threat.

Conflict of Interest

- Adjaye-Gyamfi &Co should therefore disclose to Ablordey that they are in the process of tendering for the audit of a competitor. If either Ablordey Co or Gyms Ltd is unhappy with this situation then Adjaye-Gyamfi &Co will need to decide which audit they want to secure If Adjaye-Gyamfi & Co performs both audits, they must ensure that they use separate audit partners and teams and set up "Chinese walls" to maintain confidentiality.

(4 points well explained @1.5 marks each = 6 marks)

b) **Safeguards necessary to eliminate or reduce threats associated with accepting new engagements may include:**

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Assigning sufficient staff with the necessary competencies.
- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

(5 points for 5 marks)

c) **Checklist for assessing quality of audit engagements**

Did the auditor properly considered following points before planning the audit engagement:

- Matters, such as applicable cost accounting orders relevant to the industry, audit of cost account rules, cost accounting practices, economic situations, laws, government regulations, and technological vicissitudes, which affect the industry?
- Matters having impact on entity's business such as organization, types of products and services?
- Approved suitable level of knowledge of clients business and accounting system by documenting into working papers.
- Had an introductory meeting with the client key official to have detailed knowledge of the business and industry. And has the major issues, if any pointed out in the meeting were properly recorded and communicated to the client well before time?
- Implement the audit planned in planning the nature timing and extend other audit procedures?
- Attained and documented proper understanding of the internal audit functions based upon the involvement and collaboration of the internal audit?

- Acquire adequate knowledge of the internal control structure to plan the audit and reflect to place expected reliance on internal cost accounting controls and appraised the nature, time and level of tests of controls to be performed.
- In case it became necessary to have discussions to make significant decisions, whether the results of such discussions documented in the audit working papers? In case the work papers showed client's information technological risks, the impact on audit and the engagement team's valuation of whether to include Information Technology Audit specialist?
- Assessed the quality of the performance of audit team in planning?
- Signed all procedures called for in the audit programs?

(10 points @ 0.5 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- a) (ai-ii) - These two sub-questions were on threats to independence and safeguards to mitigate the threats. Many candidates were able to identify and evaluate the relevant threats and recommended the safeguards to mitigate them. Best answered question.
- b) Candidates were required to recommend safeguards to reduce or eliminate the threats associated with accepting a new engagement. Many candidates were able to provide the right answers.
- c) Candidates were asked to prepare a checklist for assessing quality of audit engagements. The question posed serious challenges to many candidates. Performance was poor.

QUESTION THREE

a) Likely risk to be encountered by the auditor

The scenario fits **Money Laundering** activity.

- Musah is given huge cash to buy his goods by his brother
- Musah's brother does not have bank account in Ghana
- The proceeds of the transaction is not paid to his brother in Ghana, but paid into his account in foreign country.
- Though we are not sure how his brother get his money, the modus operandi, fit money laundering.

(3 points for 3 marks)

Expectation of the risk format

In Money Laundering,

- There's placement of illegal funds into the financial system. Here huge cash is given to Musah to buy goods and sell outside Ghana.
- Layering-Passing the money through a number of transactions, selling the good outside the country which is engagement of economic activity
- Integration-Integrating the proceeds into legitimate economy by banking in other countries.

(3 points for 3 marks)

Actions to be taken by the auditor

The auditor is then exposed to money laundering activity

- The auditor has an obligation to know the source of the money being given by Musah's brother.
- The auditor must perform due diligence on the customer and the brother to confirm the activity of the brother.
- If the suspicion is confirmed, the matter should be reported to the authorities.
- The auditor should avoid tipping of the client during his investigation to confirm the suspicion.

(Any 2 points @ 2 marks each = 4 marks)

b) The matters to be considered in the training material are;

- The meaning of Professional scepticism
- The importance of professional scepticism
- What can firms do to enhance awareness of professional scepticism's importance?
- At what stage of the audit is professional scepticism necessary?
- How does this relate to fraud?
- Where else is professional scepticism important, other than fraud.
- How can professional scepticism be evidenced?

($\frac{1}{2}$ mark each for any six valid point= 3 marks)

Discussion

In February 2012 the IAASB issued a Q & A paper on Professional Scepticism. Professional scepticism is a crucial aspect of audit, defined in ISA 00. The Paper can be summarised by the following points.

- **What is professional scepticism?**

It is hard to define, but is fundamentally a mind-set' which is linked to the ethical principles of objectivity and independence. It means 'being alert' to evidence that contradicts evidence already obtained, or which cast doubts on the reliability of documents or explanations provided, or which may indicate fraud.

- **Why is professional scepticism important in audits?**

It is part of the auditor's skill set', and is part of professional judgement. It affects decisions about: the procedures to be performed; the sufficiency & appropriateness of evidence obtained; the validity of management's financial reporting judgements; and the conclusions draw based on audit evidence.

- **What can firms do to enhance awareness of professional scepticism's importance?**

It is a matter of education, training and experience, as well as the culture of the firm. At a firm-wide level, this means establishing policies and procedures, promoting a quality-oriented culture, and establishing training and CPD schemes.

At an engagement level, this means that the partner must communicate the importance of quality, and that the audit team is able to raise concerns without fear of reprisals'.

- **At what stage of the audit is professional scepticism necessary?**

Throughout the audit! E.g. at engagement acceptance, when considering the integrity of management and owners.

- **How does this relate to fraud?**

The fact that fraud involves deception and concealment makes professional scepticism particularly important in relation to it. ISA 240 emphasises professional scepticism, particularly in the form of 'an on-going questioning' of whether there has been a fraud: There are also areas where there is a required presumption that there is a risk of fraud; revenue recognition, risks of management override of controls as a result of fraud, and accounting estimates.

- **Where else is professional scepticism important, other than fraud?**

- ✓ Significant or judgemental areas, such as;
- ✓ Accounting estimates (e.g. are assumptions reasonable?)
- ✓ Going concern (e.g. are management's plans really feasible?)
- ✓ Related party relationship & transactions (e.g. transactions outside the normal course of business – misappropriation of assets?)

- ✓ Law & regulations (e.g. where non-compliance may call into question going concern)
- **How can this be evidenced?**
Audit documentation should enable an experienced auditor understand significant decisions made during the audit and any conclusions drawn. As the auditor should be professionally sceptical when making these decisions the documentation would provide evidence of this example it should document the discussions the auditors have about possible non-compliance with laws & regulations, or possible management bias in relation to accounting estimates.
(1 mark each for any seven 7 valid points made= 7 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- a) In this question a money laundering scenario was given and candidates were expected to discuss the likely risks to be encountered in the audit of the clients operations, discuss the risk format and actions to be taken by the auditor. Some candidates missed the money laundering indicators in the scenario and therefore could not provide the right answers. Those who were able to identify the money laundering indicators were able to provide the right answers.
- b) Candidates were required to provide material for ICAG CPD programme on Professional Scepticism based IAASB Q & A paper on the topic. This is a text book question on current issues. Those who knew it did very well but the rest performed poorly.

QUESTION FOUR

a)

i) **Positive Effects**

In view of the tremendous savings being achieved as a result of removal of ghost names, it is believed that out-sourcing government payroll will inure to the benefit of the government. Additionally, the government can achieve the following:

- Reduction in cost of preparing the payroll as there will not be the need to engage more people and sophisticated software programme to work on the payroll.
- Payroll will be prepared by specialist which will not have been the case with the staff of government department.
- Service company may provide the government a comfort zone by giving indemnity in event of problems arising.
- It will help the government to focus on its core services of offering social services to the public.
- It may reduce payroll fraud.

(Any 3 points for 3 marks)

Negative Effects

- Staff may be laid off as not all the employees may be maintained. This may result in redundancy which may cost the government.
- Ghost names may still persist as dismissals and terminations may not be advised promptly
- If Government fails, it may have to pay redundancy cost for dismissals and workers may go to court.

(Any 2 points for 2 marks)

ii) **The user auditor must do the following:**

- Understand the transaction by examining all the contracts and identify potential risks
- Evaluate all the controls at the user entity that relate to the service organization and determine whether that gives the auditor sufficient understanding to provide a basis for assessing risks of material misstatement from the side of the government
If the auditor concludes that this is insufficient, he must carry out one of the following activities:
 - Obtain Type 1 or Type 2 report from service organization (if Available)
 - Contact the service organization to get specific information (with permission)
 - Visit the service organization and perform procedures to obtain information (with permission)
 - Use another auditor to perform procedures at the service organization (with permission)

(1 mark each for any 5 points)

b) **Firstly, I will have to understand the nature of the organization.**

- Make sure I obtain copies of the following;
 - ✓ The law establishing the organization
 - ✓ Internal Audit Agency Act, 2003 (Act 658)

- ✓ Public Financial Management Act, 2016 (Act 921)
 - ✓ Internal Audit charter of the organization
 - ✓ Risk Assessment Profile of the organization
 - ✓ Strategic Plan of the Organization
 - ✓ Organization Chart
 - ✓ Corporate Profile
 - ✓ Write-up on all the Heads of Department
 - ✓ Previous Internal audit reports
 - ✓ Previous External audit reports
- Second, plan how the work will be done by holding a meeting with the members and the internal auditor to discuss and review the following:
 - ✓ Internal audit charter
 - ✓ The risk of the organization
 - ✓ Internal Audit Plan and Budget for the year
- Hold meetings to discuss internal audit and external audit reports. Ensuring that internal audit work is done in line with plan and ensure that recommendations by internal and external auditors are discussed with management and implemented.
- Ensuring that internal audit department is adequately resourced, with personnel and equipment, to perform creditably.
- Supervise meetings in a coordinated manner to ensure that members participate effectively to the benefit of the organization.
- Ensure that internal audit personnel are given periodic and adequate training.
- Ensure the independence of internal audit personnel in the performance of its work.
- Ensure implementation of any recommendation contained in
 - ✓ Internal audit report
 - ✓ Parliament's decision on the Auditor-General's report
 - ✓ Auditor-General's Management Letter
 - ✓ The report of an internal monitoring unit in the organization particularly in relation to financial matters.
- Ensure reports are made annually on implementation of recommendations to the Minister, Parliament, and Office of the president and the Auditor-General within six months after the end of each financial year.
- Review the activities of the year to ensure that the organizations risks are adequately attended to.
And any other relevant point.

**(5 points for 10 marks)
(Total: 20 marks)**

EXAMINER'S COMMENTS

- a) Candidates were required to discuss the effects of outsourcing of government payroll of public sector workers and analyse the duties of the user auditor. Many candidates were able to discuss the effects of payroll outsourcing but they could not adequately analyse the duties of the user auditor very well.
- b) This question involved discussing how a chairman of an Audit Committee in the Public Sector would execute his functions in the first year of his tenure. Knowledge of the responsibilities of an audit committee and the roles of the chairman is needed to answer the question correctly. The question seemed to be too practical to many candidates. Some of those who knew that the roles of the chairman relate to the functions of the committee could not get the answers right because they could not differentiate the functions of audit committees in the public sector from those in the private sector. However some candidates performed well.

QUESTION FIVE

a)

- i) If a company needs to have such an investigation carried out there are at least three possible options available to it.

Firstly, conduct the investigation in-house using, for example, the internal auditor or some suitable internal resource.

Secondly, an external consultant with no other connection to the company could be used. Falling between the two, so to speak, would be the option of using the external auditor by commissioning them to do it as a special assignment.

The advantages of the latter option are:

- They already have a certain familiarity with the company so briefing them would be easier and they should be in a position to complete the assignment more quickly and cheaply than another external consultant.
- Most auditors of any size would have the resources and the expertise to carry out the assignment. It might not be possible, for example, to say the same about the internal audit team.
- There would – hopefully – be no questions over the integrity, independence, or objectivity of the external auditors.
- The client could expect to be covered by an appropriate level of indemnification (via the auditor's Professional Indemnity Insurance) if the work is done by the external auditor.
- On the other hand, the external audit would charge a fee which might be avoided if the internal auditor were to be used. The internal auditor would also be even more familiar than the external auditor about the company but their objectivity might not be quite as assured.
- The ultimate decision is a judgement for management to make and depends on the particular circumstances of each case.

(4 points @ 1.5 marks each = 6 marks)

ii) **The matters we, as external auditors, would need to take into consideration include the follows:**

- We would need to be satisfied with the terms of reference in relation to our investigation e.g. are we expected to gather evidence that would be of sufficient quality that it could be used in legal proceedings against Segbefia?
- We would need to be assured that we would have full access to all relevant records
- We would need to be assured that we had the expertise and resources to take on the assignment.
- We would need to discuss the degree of reliance to be placed on report and by whom? For example, could the report be used by the entity's insurer?
- We would need to ensure sufficient time was available to complete the report.
- We would need to discuss the form of report required e.g. agreed upon Procedures, or some sort of assurance report.

- We would need to be assured that a sufficient fee would be available for the complexity and risk involved in the assignment.

(Any 4 points for 4 marks)

b)

- i) In terms of the amount GH¢60,000 is only 2.5% of the profit before tax and 0.11% of the Revenue so the “Overpayment” can safely be stated to be quantitatively immaterial. However, that is far from the whole story. (1 mark)

Firstly, even if no overpayment arose the entire transaction (of which we are not given the quantum) is a related party transaction and should be disclosed under IAS 24. A matter is considered immaterial under IAS 24 only if it is immaterial to both parties to the transaction. This alone might well be sufficient reason to qualify the audit report on this point. (1 mark)

Secondly, the overpayment could be seen as extra director’s remuneration the consequences of which would be twofold. Firstly, it would need to be disclosed as such under The Companies Acts and secondly it might have tax consequences. Again, these might be quantitatively immaterial but might need to be disclosed because of their nature. (1 mark)

In any case, these transactions and the attitude of the directors towards them bodes ill for our continuing relationship with the client. (1 mark)

- ii) This would appear to require no adjustment to the audit report and would appear to have no consequences for our continuing relationship with the client. If this were a very significant subsidiary it might require an emphasis of matter paragraph but since we are told this is a “small subsidiary” this would appear not to be the case. Depending on how the corresponding figures are shown an “other matter” paragraph might be considered appropriate. (3 marks)

- iii) Given that the error was corrected before the financial statements are issued, it clearly has no impact on the audit report in spite of the fact that the issue is clearly material (at 50% of profit before tax and 2.22% of turnover). In terms of our continuing relationship with the client, again there would appear to be no issue but we would want to confirm how the error occurred in the first place and perhaps reassess control risk. (3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- a) The scenario outlined the activities of a mechanic who was unjustifiably recommending the scrapping of the company's vehicles and disposing of them to his own contacts. Statistics of disposal of vehicles showed a disturbing situation which called for an investigation. Candidates were required to appraise the extent to which the external auditor of the company is the most appropriate person to carry out the investigation, and the matter the auditor should take into consideration in deciding to accept the engagement or not. Some candidates rather discussed why the external auditor is not the most suitable person to carry out the investigation. However, matters to be considered in deciding to accept the engagement were correctly discussed. Mixed performance.
- b) Three scenarios were given and candidates were to evaluate the implications of the matters for audit opinions in each scenario. Candidates needed to evaluate the implications of the matters in each scenario determine what circumstances they represented and consider the appropriate audit opinion to issue. While candidates were able to determine the circumstances after evaluating the implications of the matter, some could not form the right audit opinions.