

**NOVEMBER 2018 PROFESSIONAL EXAMINATIONS
ADVANCED AUDIT & ASSURANCE (PAPER 3.2)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

Performance of candidates in general fell far below expectation. High marks were expected of candidates based on the standard of the paper. However, many candidates performed poorly.

STANDARD OF THE PAPER

All the questions in the paper were within the scope of the syllabus. The paper achieved ninety (90) percent syllabus coverage. Section 1 on current issues was not featured but section G on other assignment featured two questions with the total marks of 20/, 10/ more than the syllabus weighting. However some of the learning outcomes examined for example identify, explain, fell below the requirements at the advanced audit and assurance level. A few high level learning outcomes such as discuss, perform, evaluate and prepare a report were featured. Candidates should have been tasked to analyse, evaluate, advice and recommend at this level of the professional examinations.

OVERALL PERFORMANCE OF CANDIDATES

Even though the quality of the paper did not measure up to the required standard in terms of difficulty and workload, candidates did not live up to expectation. It appeared many candidates did not read the requirements with understanding before making the attempts at answering the questions. Performance was below average as reflected in the pass rate of 36.62%

CANDIDATES' WEAKNESSES

As usual many candidates gave lengthy and unproductive preambles to answers which had no bearing on the requirements of the questions. For example, many candidates explained money laundering and the processes of accomplishing it which did not form part of the requirement of question three (3). Some candidates did not number their solutions in the answer booklet and as a result, examiners were compelled to number the answers to facilitate their work.

QUESTION ONE

- a) Your audit firm, Beauties Consult, is going to audit for the first time the financial statements of Black Gold Co. Ltd. for the year ended 31 December, 2017. Black Gold Co. Ltd. operates a chain of fuel filling stations in the Greater Accra, Ashanti and Western Regions of Ghana. Customers pay cash for the main products – premium, diesel and kerosene.

According to its directors, the company has had a “challenging” year, and is renegotiating its bank overdraft facility with its bankers. The Statement of Profit or Loss for the year ended 31 December, 2016 is shown below together with the draft Statement of Profit or Loss for the year ended 31 December, 2017.

Black Gold Co. Ltd: Statement of Profit or Loss Account for the year ended		
	31 December 2017	31 December 2016
	GH¢'000	GH¢'000
Revenue	10,410	9,528
Cost of Sales	<u>(4,752)</u>	<u>(5,110)</u>
Gross Profit	5,658	4,418
Operating Expenses:		
Administration	(1,334)	(1,596)
Selling and Distribution	(846)	(920)
Interest	<u>(120)</u>	<u>(118)</u>
Profit before Tax	<u>3,358</u>	<u>1,784</u>

Required:

As head of the audit team, you are carrying out risk assessment at the planning stage. Perform **analytical review** of the draft statement of profit or loss to identify **possible risk areas** requiring further audit work and provide the necessary **risk responses**. (12 marks)

- b) Central to a number of government investigations in Ghana 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 by directors over both parties to the transactions. **ISA 550: Related parties** covers this area.

Management is responsible for the identification of related party transactions. Such transactions should be properly approved as they are frequently not at arm's length. Management is also responsible for the disclosure of related party transactions.

As a senior partner of your audit firm, you are considering how to identify all the related party transactions of your audit client whose financial statement for the year ended December 31, 2017 you are about to audit.

Required:

Discuss **FOUR (4)** reasons why the auditor needs to identify related parties transactions during an audit. (8 marks)

(Total: 20 marks)

QUESTION TWO

- a) A medium-sized fast growing company owned by the Basoah Family approached Fast and Easy Accounting Firm (FFAF) and explained that they want to change their auditors to a firm that can provide a broader range of services and support than what they receive from their current Auditors. They have asked that FFAF should perform the following roles as auditors of the company if they are engaged:
- i) Supervision of the company's routine bookkeeping and payroll systems which will be outsourced to render the present bookkeeping and payroll staff redundant.
 - ii) FFAF would then employ the redundant staff and use them to perform the bookkeeping and payroll tasks.
 - iii) The company would continue to provide office space for these members of staff, but they would be employed and supervised by FFAF.
 - iv) The company will however continue to prepare financial statements. They will prepare the financial statements from the trial balance generated by the computerised bookkeeping package provided by FFAF.
 - v) The company is determined to have a good quality service, both from the bookkeeping function and from the external audit and they are ready to pay a realistic audit fee to maintain FFAF as their External Auditors.

Required:

Assuming that FFAF accepts this appointment, explain how the firm would organise its audit work to ensure that the associated self-review threat is reduced to an acceptable level.

(10 marks)

- b) The International Standard on Quality Control (ISQC) deals with a firm's responsibilities for its system of quality control for audits and review of financial statements, and other assurance and related services engagements.

Required:

- i) Identify and describe **FOUR (4) *quality control procedures*** that are applicable to an audit engagement. **(8 marks)**
- ii) Discuss **TWO (2)** problems that may be faced in implementing quality control procedures in a small firm of Chartered Accountants **(2 marks)**

(Total: 20 marks)

QUESTION THREE

- a) It was reported in both the print and electronic media that “the hidden wealth of some of the world’s most prominent leaders, politicians and celebrities including former Tory MPs and six peers have been released in a massive leak. The leak came from the database of lawyer Massack Fonseca who was alleged to have aided the people involved to form off-shore companies which enabled them to evade tax and indulged in money laundering. This revelation has implications for professional accountants who are required to report suspicious transactions and activities of clients.

Required:

- i) Discuss the auditor’s duty under *money laundering laws and regulations* and the requirement of confidentiality under the IFAC’s Code of Ethics for Professional Accountants. **(4 marks)**
- ii) Recommend elements that should be included in anti-money laundering programme for an accounting firm. **(6 marks)**
- b) Eco-Essence is a limited liability company set up to produce water and pharmaceutical products. Currently, it produces only sachet water. It has all the necessary certifications for production, including that of Food and Drug Authority (FDA), Environmental Protection Agency and District Assembly. The Company operates from a quasi-residential area. Of late, the residents of the area have been complaining of increase in the noise levels from the plant, pollution as a result of the sachet water rubbers, waste water from the plant making some part of the community marshy and deterioration of the quality of the roads due to the weight of heavy-duty vehicles.

Required:

As a senior auditor, you have been scheduled to perform the audit of Eco-Essence.

- i) Briefly outline why *environmental issues* are important to you in the audit of Eco-Essence. **(3 marks)**
- ii) Discuss how you will carry out *environmental audit* on Eco-Essence. **(7 marks)**

(Total: 20 marks)

QUESTION FOUR

a) **Internal Audit Definition**

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Required:

Evaluate the objectives of **FOUR (4) governance processes** and **FOUR (4) risk management** that an internal auditor must consider and identify the *audit work* that must be done.

(10 marks)

- b) Under the Public Financial Management Act, Audit Committees are required to play important roles in corporate governance and Accountability.

Required:

Discuss **FIVE (5) mandatory roles and responsibilities** and **FIVE (5) advisory roles and responsibilities** of Audit Committees that may contribute to Corporate Governance and Accountability.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Palm Oil Processing Company Ltd is a palm oil processing company founded in 2001. The processing is done at five different locations within the West Akim District of the Eastern Region. The company is facing problem of the supply of palm fruits (the raw material of the company). To ensure regular supply of palm fruits, Palm Oil Processing Co. Ltd. approached the Directors of Ayensu Palm Plantations Ltd. to acquire their company. The Directors of Palm Oil Processing Company approached Western Auditors, a firm of Chartered Accountants to conduct a due diligence review on Ayensu Palm Plantation Ltd.

Required:

As audit manager of Western Auditors;

- i) Identify **FIVE (5)** practical examples of due diligent assignments and which one(s) would be relevant to Ayensu Palm Plantation Ltd. **(5 marks)**
- ii) Explain **FIVE (5)** issues you would include in your due diligence review inquiries on Ayensu Palm Plantations Ltd. **(5 marks)**
- b) You have just audited the financial statements of Yawa Company Ltd for the year ended 31 December, 2017. You discovered during the audit that inventories were not stated at lower of cost and net realisable value but stated solely at cost on the statement of financial positions.

Records of the company indicated the cost of the inventories to be GH¢600,000 of which the Net realisable value was GH¢400,000. Management is not prepared to adopt the lower of cost and net realisable principle in their inventory valuation.

Required:

- i) Identify and justify the type of *opinion* you will issue. **(2 marks)**
- ii) Prepare the appropriate paragraphs under management responsibility, auditor's responsibility and the auditor's opinion for inclusion in the audit report of Yawa Company Limited. **(8 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

- a) In total, Black Gold Ltd's **profit for the year** has increased by 88% which appears at odds with the revenue figure, which has only increased by 9% from the previous year. This may indicate that revenue has been inflated or incorrect cut-off applied, especially given the fact that the directors of the company have described the year as 'challenging'. In response, the auditor should examine the revenue recognition policy of the company and adopt procedures that would certify the revenue figure. The cost of sales and the expenses should be examined.

Revenue has increased by 9% but Cost of Sales has fallen by 7%. It should be expected that an increase in revenue would be matched by a corresponding increase in cost of sales. Again this may indicate incorrect allocation of revenue in order for the bank to look favourably on the company and increase its overdraft facility. It could also be an error in the valuation of closing stock and classification of purchases items. The auditor's responsibility should be to check on the completeness and accuracy of the revenue amount, the classification of purchases – ensuring proper distinction between capital purchases and purchase of goods, and correct valuation of closing stock.

The **gross profit** has increased by 28% and this is significant. The auditor should focus on the revenue and cost of sales figures to establish the reasons for the increase.

Administration expenses have fallen in comparison to the previous year (decrease of 16%) which is unusual given that revenue has increased by 9%. An increase in costs to be in line with the increase in the revenue figure should be expected. This could indicate that expenses may be understated through incorrect cut-off or incorrectly capitalising expenditure which should be written off to the statement of profit or loss for the year. The auditor should check the administrative expenses for completeness and correct classification.

A similar issue applies to **selling and distribution costs** which have fallen by 8% - they have not increased as expected in line with revenue. There could be legitimate reasons for the change but this area needs to be investigated further during the audit fieldwork stage.

Interest payable has stayed in line with the previous year – increase of 2%. This figure can be verified easily during the audit by inspecting bank statements and other relevant documentation from the bank.

WORKINGS: (Amounts are in GH¢'000)

1. Change in Profit: $3,358 / 1,784 - 1 = 88\%$
2. Change in Revenue: $10,410 / 9,528 - 1 = 9\%$
3. Change in Cost of Sales: $4,752 / 5,110 - 1 = -7\%$
4. Change in Gross Profit: $5,658 / 4,418 - 1 = 28\%$
5. Change in Administration Expenses: $1,334 / 1,596 - 1 = -16\%$
6. Change in Selling and Distribution Expenses: $846 / 920 - 1 = -8\%$
7. Change in Interest Payable: $120 / 118 - 1 = 2\%$

(2 marks for 6 points =12 marks)

- b) Under the requirement of ISA 550 the auditor needs to identify related party transaction for the following reasons;
- **Identification of fraud risk factor.** The ISA requires that irrespective of whether the reporting framework established related party requirements, the auditor is required to obtain an understanding of related party relationships and transactions sufficient to be able to recognise fraud risk factors arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud.
 - **Determine compliance with the applicable reporting framework.** Where the applicable financial reporting framework establishes related party requirements to obtain sufficient appropriate evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the reporting framework.
 - **To aid risk assessment.** As part of the risk assessment procedures required by ISA 315, the auditor must carry out procedures to obtain information relevant to identifying risks associated with related parties and their transactions.
 - **To determine appropriate risk responses.** Responses to the risk: As part of the ISA 330 requirements that auditors respond to assessment risks, the auditors must design and perform further procedures to obtain sufficient appropriate audit evidence about the assessed risk of material misstatements associated with related party relationships and transactions.
 - **To discover management awareness of related parties or bias.** In many cases the financial statements must include related party disclosures but management may be ignorant of the requirements or may be biased and these may increase the risk of fraud and risk of misstatement of financial statements. Identification of related party transactions may enable the auditors to assess the significance of the risks and the appropriate opinion to issue.
 - **To obtain written representations.** Identification of related party relationships and transaction will enable the auditor to demand written representations from the management that they have disclosed to the auditor the identity of the entity's related parties and all related party relationships and transaction of which they are aware of

and they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the reporting framework.

- **To draw the right conclusion and form the right opinion-** with audit conclusion and reporting, identification of related party relationships and transaction together with the accompanying risk assessment and risk response will enable the auditor to draw the right conclusions and determine the appropriate opinion to issue.

(Any 4 points for 8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 1a.

Candidates were asked to perform analytical procedures using audited figures form 2016 and draft account of 2017 in order to identify possible risk of misstatement in the financial statements and provide the required risk responses.

Many candidates were able to calculate the required ratios and interpreted the result correctly and provided the risk responses. Other candidates did trend analysis but could not properly identify the risks and provide correct risk responses.

Performance was generally good.

Question 1b.

Four reasons why auditors need to identify related party transactions during an audit were demanded from candidates. Many candidates were able to discuss the reasons correctly.

Well answered question.

QUESTION TWO

a)

- The appointment will have to be defined very clearly in the letter of engagement. The company will have to confirm a detailed description of the limits of FFAF's responsibility for the preparation of the bookkeeping records and the audit of the financial statements. The terms of the engagement should make it clear that the audit firm will take no direct part in the preparation of financial statements. The responsibility for selecting accounting policies and making significant accounting estimates and judgements should remain with company's management.
- The company's management should agree that it will accept full responsibility for all matters of judgement, including the preparation of journal entries. Audit firm staff will only undertake work of a routine and mechanical nature.
- The audit firm should ensure that the staff members responsible for the work undertaken have nothing to do with the audit itself. They will have had no prior connection to the company because this is a new audit. The supervision of the bookkeeping work might also be made the responsibility of a different partner from the person responsible for the audit.
- The bookkeeping staff should not be granted access to audit working papers. The audit staff should treat them with no more trust and familiarity than they would other members of the company's staff.
- Any assertions made by the bookkeeping staff should be subject to the same degree of checking as would be the case if made by a direct employee of the company.
- The company should be asked to agree in writing that it will appoint the bookkeeping staff appointed by the audit firm in the event of the firm being removed from office. The only proviso might be that the individual employees' performance must be deemed satisfactory by the company.

(Any 5 points well explained for 10 marks)

b) **Quality control policies and procedures**

Quality control procedures relevant to an audit engagement ISA220 requires firms to implement quality control procedures over individual audit engagements. The procedures include.

- **Leadership Responsibilities;**

The engagement partner is required to set an example with regards to the importance of quality. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

- **Ethical Requirements**

Throughout the engagement, the engagement partners shall remain alert through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.

- **Acceptance/ continuance of clients relationships and specific engagements**

The partner is required to ensure that the requirements of ISQC1 in respect of acceptance and continuing with the audit are followed. If the engagement partner obtains information that would have caused him to decline the audit in the first place he should communicate that information to the firm so that swift action may be taken. He must document conclusions reached about accepting and continuing the audit.

- **Assignment of engagement Terms.**

The assignment of engagement terms is an important matter in ensuring the quality of an individual assignment. This responsibility is given to the audit engagement partner. He must ensure that the team is appropriately qualified and experienced as a unit. He should ensure that he assigns staff of sufficient capabilities, competence and time to individual assignments so that he will be able to issue an appropriate report.

- **Engagement Performance**

Engagement performance involve several factors such as Direction. The partner directs the audit. He is required by other auditing standards to hold a meeting with the audit team and to perform an engagement quality control review to address the threat of self review.

(Any 4 points well explained for @2 marks each= 8 marks)

i) Problems for small firms

- The most obvious areas of problems for small firms are when multiples of people are required to carry out quality control procedures, therefore review and consultation. The firm may lack the human resources to carry out reviews and consultations, particularly at the experienced level. It may be necessary to come to agreements with other firms to provide a forum for such reviews and discussions.
- In addition, there may be problems with initial and ongoing training or with particular specialist knowledge if the firm does not have a lot of staff. Again, entering into agreements with other firms to pool resources in such cases may help with these problems.

(2 points for 2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2a.

This question is in relation to how to reduce self-review threat in a given scenario by an auditor engaged to supervise booking work client in addition to the audit. Some candidates strayed into the purview of all the threats to objectivity and independence instead of concentrating on safeguards relevant to self-review threat.

Performance was mixed.

Question 2b (i and ii)

This question demanded identification and description of quality control procedures to an audit engagement and problems that may be faced by small firms in implementing quality control procedures. Strangely, these straight forward questions were poorly handled by many candidates. Answers given by some candidates clearly indicated that they have no knowledge of quality control in an audit. Some candidates were able to give correct answers in relation to problems faced by small firms in implementing quality control procedures.

QUESTION THREE

a) Auditors duty under money laundering rules and regulations

i)

- The anti-money laundering laws and regulations require auditors to report suspicious transactions and activities to the Financial Intelligence Centre. However, the code of ethics requires the auditors to maintain confidentiality in client relationships. This can result in ethical conflicts namely duty to report to the authorities and duty of confidentiality to the client. This conflict may be particularly sharp where an auditor suspects the client of money laundering.
- Under the anti-money laundering, there is a requirement to report even a suspicion of money laundering which would likely conflict with the auditor's duty of confidentiality to the client.
- The situation is further complicated by the need to avoid "tipping off" the client that the auditors suspect to be engaged in money laundering which could make it very difficult for an auditor to decide whether they have a duty to report their suspicions as it would be hard to gather evidence of money laundering without "tipping the client off".
- If such an ethical conflict cannot be resolved, then the auditor may consider obtaining professional advice from the ICAG or from legal advisors. This can generally be done without breaching the fundamental principle of confidentiality if the matter is discussed anonymously with the ICAG, or under legal privilege with a legal adviser.

- The ethical rules also make provision for exceptions under the confidentiality where the auditor can disclose information when required by the law, in this case the anti-money laundering law.

(Any 4 points for 4 marks)

ii) A firm's anti money laundering programme should include:

- Appointment of a money laundering officer (MLRO) and implementation of internal reporting procedures.
- Train individuals to ensure they are aware of the relevant legislation, know how to recognize and deal with potential money laundering, how to report suspicions to the MLRO.
- Establish internal procedures appropriate to forestall and prevent money laundering, and make relevant individuals aware of the procedures.
- Verify the identity of new and existing clients and maintain evidence of identification that is customer due diligence measures.
- Maintain records of client identification and any transactions undertaken for or with the client.
- Report suspicions of money laundering to the Financial Intelligence Centre. (FIC)

(4 points @1.5 marks each = 6 marks)

b)

i) Why environmental issues are important to the auditor.

- In view of the uncertainties in recognising and measuring environmental liabilities, typically relating to the timing of clean up, the technology available or possible new legislation, the auditor needs to exercise particular care in assessing the risk of a material misstatement or omission in the financial statements.
- Where environmental matters may be a significant source of risk, an internal control system would not be effective unless it covered items giving rise to environmental risk.
- Whilst management is responsible for all internal controls to safeguard the shareholders' investment and the company's assets, the auditor is only concerned with those environmental controls that are considered relevant to the audit of the financial statements.
- Auditors carry out their work recognising that non-compliance with laws or regulations may materially affect the financial statements. In view of the growing body of environment law, the auditor needs to obtain a general understanding of these laws and regulations relevant to the business, including those that are specific to an industry sector.
- There are a number of difficulties in recognising and measuring the financial effects of environmental matters in the financial statements, all of which may have implications for the auditor.
- Where management engages an expert to provide technical advice to assist in developing estimates and disclosures in the financial statements relating to

environmental matters, the auditor should consider the adequacy of such work, as well as the expert's competence and objectivity.

- The auditors should also consider any going concern issues that could arise on account of environmental challenges.

(Any 3 points for 3 marks)

ii) The conduct of the environmental audit will follow this approach

Planning the audit

Performing Substantive Procedures

Carrying a review and reporting

- During the Planning stage, the auditor needs to obtain knowledge of the business to determine how the company's operation impact the environment and the nature of laws and regulations which the company has to comply with in its operations.
The auditor will have to carry out inherent risk assessment to determine which environmental factors can translate into material misstatement in the financial statements and can affect the going concern of the entity.
- During Substantive procedures, the auditor will gather appropriate and sufficient evidence to ensure the correct treatment of the following in the financial statements;
Provisions- for site restoration, fines and compensation
Contingent liabilities in relation to pending legal action
Asset values- issues that may impact on impairment or purchase goodwill and products.
Capital/Revenue expenditure- cost of cleanup or meeting legal standards
Development cost-new products
Going concern issues
- At the review stage of the audit, the auditor will take into account environmental issues to determine whether management use of going concern basis is reasonable and acceptable to determine the type of opinion to issue.

(2 marks for 3 points well explained = 6 marks)

(1 mark for Professional Presentation)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 3a.

Candidates were required to discuss the auditors' duty under money laundering laws and regulations and the confidentiality requirements under the code of ethics for professional accountants engaged in the conduct of audits. While some candidates wasted time in explaining money laundering and how it is accomplished, some candidates were able to discuss the issues correctly.

Mixed performance.

Question (3b).

This question is on the importance of environmental issues in an audit and the procedures the audit will follow to assess environmental issues in an audit. From the scenario, candidates were to show how the auditor would carry out the audit in relation to the environmental issues.

Some candidates did well but could not breakdown the work into the required phrases, namely, the planning stage, during the audit and the concluding and reporting stages. Performance was average.

QUESTION FOUR

a) Governance Processes

The objectives of the governance processes are the following:

- To ensure that the organization is able to achieve its mission
- To ensure the right strategic direction of the organization
- To ensure that the operation of the entity will be carried out in compliance with the laws and regulations and internal systems and procedures
- To ensure the stability and growth of the entity
- To protect the interest of the stakeholders
- To prevent fraud and other malfeasance in the entity
- To safeguard the assets of the entity and help to preserve the environment
- To ensure effective organizational performance and accountability
- To ensure smooth information flow and proper risk management
- To co-ordinate the activities and communication of information among the board,
- To establish and monitor whether controls and standards are working.

(4 points for 4 marks)

Audit work

- Evaluation of the design, implementation and effectiveness of organization's ethics-related objectives, programmes and activities
- Assessing whether the information technology governance of the organization supports the organization strategies and objectives

(2 points for 1 mark)

Risk management

Objectives to be assessed in risk management are ensuring that:

- risk procedures are in place
- Strategies are in place and are working effectively.
- Reliability and integrity of financial and operational information

- Effectiveness and efficiency of operations
- Safeguarding assets
- Compliance with the Laws, regulations, and contracts

(Any 4 points for 4 marks)

Audit work:

- Identifying and evaluating significant exposure to risk management and control system.
- Monitor and evaluate the effectiveness of the organization's risk management system
- Suggest improvement of the risk management systems.

(Any 2 points for 1 mark)

b) Mandatory roles and responsibilities of Audit Committees

The audit committee shall ensure that the head of the covered entity.

- Pursues the implementation of recommendation contained in.
 - a. Internal Audit reports
 - b. Parliament decisions on the Auditor-Generals report
 - c. Auditor-General management letter
 - d. The report on internal monitoring unit in the covered entity particularly in relation to financial matters raised; and
 - e. Any other report the principal account holder shall require.
- Prepares an annual statement showing the status of implementation of recommendations contained in:
 - a. Internal audit reports
 - b. Parliament's decision on the auditor – General's report.
 - c. Auditor- General's management letter
 - d. The report of internal monitoring unit the covered entity concerned particularly in relation to financial matters raised
 - e. Any other report the minister shall require
- An annual statement required under the above shall;
 - a. Indicate the remedial action taken or proposed to be taken to avoid or minimise the recurrence of an undesirable feature in the accounts and operations of a covered entity.
 - b. Indicate the period for the completion of the remedial action: and
 - c. Be endorsed by the relevant sector minister and forwarded to the minister of finance, parliament and the office of the president and the Auditor-General within six months after the end of each financial year.

(Any 5 points for 5 marks)

Advisory Roles and Responsibilities.

- Providing advice on sound, transparent and reliable financial management;
- Ensuring the risk management process is comprehensive and effective;

- Helping achieve organizational-wide strong and effective internal controls in the covered entity
- Reviewing corporate policies relating to compliance with laws, regulations, ethnics, conflict of interest, investigation of misconduct and fraud.
- Reviewing current and pending corporate governance-related litigation or regulatory proceedings to which the covered entity is a party.
- Ensuring the internal auditor access to the audit committee and encouraging communications beyond scheduled committee meetings.
- Reviewing internal audit plans, internal audit charters, risk (including fiscal risk) assessment reports.
- Ensuring the development, approval and update of the code of conduct. The committee should also ensure that all employees receive the code of conduct understand it and obtain appropriate training regarding it.
- Follow up on significant issues investigations and disciplinary actions.
- Collaboration with the internal audit agency to initiate investigation into matters involving fraud or misuse of public funds by the principal spending officer.
- Reviewing audit reports for assurance on efficiency, effectiveness and economy in the administration of programmes and operations of the covered entity.

(Any 5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 4(a).

Candidates were required to evaluate the objectives of 4 governance process and four risk management that an internal auditor must consider and the work he must do in relation to them. Instead of focussing on evaluation of the objectives of the governance processes and risk management, many candidates rather concentrate only on the internal auditors' role in governance and risk management. Poor performance.

Question (4b).

This question demanded discussion of the mandatory and advisory roles and responsibilities of audit committee under the Public Financial Management Act. Apparently, many candidate had no knowledge of the requirements under the act. They gave answers relevant to audit committees in the private sector. Another poor performance.

QUESTION FIVE

a)

i) **Due diligence may include some or all of the following aspects.**

- Financial due diligence (a review of the financial position and obligations of a target to identify such matters as covenants and contingent obligations)
- Operational and IT due diligence (extent of operational and IT risks, including quality of system, associated with a target business).
- People due diligence (key staff positions under the new structure, contract termination costs and cost of integration).
- Regulatory due diligence (review of the target's level of compliance with relevant regulation)
- Environmental due diligence (environmental. Health and safety and social issues in a target)

(1 mark each for any 5 valid point)

ii) **A typical due diligence review could include enquires into;**

- Structure, including how the target is owned and constituted and what changes will be necessary.
- Financial health, based on a detailed examination of past financial statements and an analysis of the existing asset base.
- Credibility of the owners, directors and senior managers, including validation of the career histories of all the main players in the business.
- Future potential, reflected in the strengths of its products or services and the probability of earnings growth over the medium to long term
- Assessment of the risk to the acquiring business, in terms of their markets, strategy and likely future events.
- The business plan, in terms of how realistic it is, how solid the assumptions used are and how well it conveys the potential.

(1 mark each for any 5 valid point)

b)

i) The audit opinion will be a *qualified opinion*. The issue at stake is material but not pervasive. Management is in disagreement with the auditor in the adoption of lower of cost and net realisable value in the valuation of inventories.

(2 marks)

b (ii)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF YAWA COMPANY LIMITED FOR THE YEAR ENDED 31ST DECEMBER 2017

Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of Yawa company limited which comprise the statement of financial position as at 31st December, 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the matter stated in the basis of qualified opinion, the accompanying financial statements give a true and fair of the financial position of Yawa company limited as at 31st December 2017 and of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the companies Act 1963, Act 179.

(4 marks)

Management Responsibility

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and in the manner required by the companies Act 1963, Act 179 and for such internal control the board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

In preparing the financial statements the Board of Directors is responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matter related to going concern and using the going concern basis of accounting unless the Board of Directors either intend to liquidate the company or the cease operations, or have no realistic alternative but to do so. The Board of Directors is also responsible for overseeing the company's financial reporting process.

(2 marks)

Auditor's Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA, s will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercised professional judgement and maintained professionalism throughout the audit. (2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 5(a).

Candidates were required to identify five typical due diligence assignments and determine which one is applicable to the business entity described in the scenario. They were further required to identify issues that would be included in the due diligence enquiries. Many candidates could not identify the due diligence assignments but rather outlined the procedures for carrying out the assignment. However, the issues to be included in the due diligence enquiries were correctly spelt out. Mixed performance.

Question 5(B).

The scenario indicated that management refused to value stocks at lower of cost and net realisable value and candidates were to determine the type of opinion to issues. Many candidates were able to provide the right answer.