

SOLUTION 1

- (a) (i) The primary objective of an audit is to enable auditor to form and express an independent and expert opinion on the financial statements. The opinion is expressed as to whether or not the auditor believes that the financial statements present a true and fair view of the financial position of the company and of its profit or loss for the period under review.

A part from the primary aim of producing a report, there are subsidiary objectives namely:

- to detect errors and fraud;
- to prevent errors and fraud through the deterrent and moral effect of the audit;
- to assist client to institute improved financial controls; and
- to assist the client with accounting systems, taxation, financial and other problems.

- (ii) The advantages of having the financial statements of Dad and Son Construction Ltd audited include:

- The auditor may discover major errors and/or fraud during his audit even though such discovery is not the primary objective of the audit.
- The future sale of the company as a going concern will be facilitated where proper accounts have been prepared and audited.
- Application to third parties for finance may be enhanced by the production of audited accounts.
- The audit is likely to involve an in-depth examination of the business and so may enable the auditor to give more constructive advice to management on improving the efficiency of the business.

- (b) (i) A person shall be qualified for appointment as an auditor of a private company if –

1. he is a member of the institute of Chartered Accountants (Ghana) under the Chartered Accountants Act, 1963 (Act 170).
2. he is a practicing accountant within the meaning of Act 170.

- (ii) The following persons shall be disqualified for appointment as auditor of a private company:

1. An officer of the company or of any associated company.
2. A person who is a partner of or in the employment of an officer of the company or of any associated company.

3. An infant.
4. Any person found by a competent court to be a person of unsound mind.
5. A body corporate, except that members of an incorporated partnership – may be appointed.
6. Anyone in respect of whom an order shall have been made under section 186 of the Companies code.
7. An undischarged bankrupt.
8. A person who is for the time being disqualified from acting as auditor of a company by order of the Registrar.

SOLUTION 2

- (a) (i) Vouching – Is the process adopted to provide documentary evidence, information and explanations to substantiate the transactions in the books of a business. The vouchers so examined should be within the period being audited and correctly entered in the books.
- (ii) Compliance Tests
These involves normally:
1. Examination of evidence:- the inspection of records, documents, reconciliations, reports, etc. for evidence that a specific control appear to have been properly applied.
 2. Reperformance: - the repeating, either in whole or in part of the same procedures performed by the employees of the firm (eg. Matching purchases invoice with the corresponding purchase order).
 3. Observation and enquiry:- the observation of a procedure, together with informed enquiry about the procedure at other times.
- (b) Audit planning process include:
- (i) Consider the background to the client's business and attempt to ascertain any problem for that sector of industry or commerce which may affect the audit.
 - (ii) Consider an outline plan to the audit including the extent to which the auditor may wish to rely upon internal controls and the extent to which work can be allocated to interim or final audit stages.
 - (iii) Review matters raised in the audit of the previous year by examining the files and discussion points with staff previously involved in the audit to ascertain those facts which may have relevance to the current year.

- (iv) Assess the effects of any changes in legislation or accounting practice on the financial statements of the client.
 - (v) Review any management or interim accounts which the client may have prepared as these may indicate areas of concern in the audit.
 - (vi) Meet the senior management of the client to identify problem areas, for example, material variances between budgeted and actual results and significant changes in the client's accounting procedures.
 - (vii) Consider the timing of significant phases in the preparation of the financial statements eg dates of stocktaking, balancing of personal ledgers, posting of nominal ledgers, preparation of trial balance and draft accounts.
 - (viii) Consider the extent to which the client's employees may be able to analyse and summarise the financial data and the relevance to the audit of work carried out by the client's Internal Auditors.
 - (ix) Determine the number and grade of staff to be allocated to each stage of the audit.
 - (x) Consult members of the audit team to discuss any foreseeable problem.
 - (xi) Prepare a budget allocating the time for each member (or grade) of the audit team.
 - (xii) The client should be informed of the expected date of attendance by the audit staff and obtain his agreement.
- (c) Factors that would determine the extent of controls include:
- (i) The nature, size and volume of the transaction.
 - (ii) The number of administration staff available.
 - (iii) The materiality of transaction concerned.
 - (iv) The degree of control which members of management are able to exercise personally.
 - (v) The importance placed on internal control by the organisation's management.
 - (vi) The geographical distribution of the enterprise.
 - (vii) The management style of the entity particularly the trust placed on integrity and honesty of the key personnel.
- (d) Qualities of effective audit evidence include:
- (i) Sufficiency
Sufficient auditor's evidence is influenced by:
 1. The auditor's knowledge of the business and the industry in which it operates.
 2. The degree of risk of misstatement through errors or irregularities.
 3. The persuasiveness of the evidence.

4. The reliability of the evidence which the auditor had already obtained or is about to obtain.

(ii) Relevance

This means the information obtained by the auditor in arriving at his conclusion on any account balance and/or transaction should be related to the situation.

(iii) Reliability

Information obtained should be reliable to an appreciable degree. Reliability is judgemental:

- Documentary evidence is more reliable than oral evidence;
- Evidence obtained from independent sources outside the enterprise is more reliable than that secured solely from within the enterprise.
- Evidence originated by the auditor by such means such as analysis and physical inspection is more reliable than evidence obtained from other.

SOLUTION 3

(a) (i) To achieve its objective the Internal Auditor should:

1. Review and appraise the soundness, adequacy and application of accounting, financial and other operating controls and recommend effective controls at reasonable cost.
2. Ascertain the extent of compliance with established policies, plans and procedures.
3. Ascertain the reliability and relevance of management data developed within the organization.
4. Appraise the quality of performance in carrying out assigned responsibilities.
5. Ascertain the effectiveness of established policies and plans and recommend operating improvement.

(ii) Co-operation between the External Auditor and the Internal Auditor should take the following forms:

1. The use of identical control questionnaire and audit programmes.
2. Knowledge by the External Auditor of the planned Internal Audit coverage.
3. Where fundamental changes are envisaged, it is desirable to have a joint reporting by both the Internal and External Auditors.
4. The sending of Internal Audit reports to the External Auditor.
5. The use of Internal Auditor's report on internal control matters to the Internal Auditor.

- (b) The External auditor should make a preliminary assessment of the effectiveness of the Internal auditor's work so as to place reliance on it by considering the following:
- (i) The degree of independence from management influence.
 - (ii) The responsibilities assigned to internal audit and any limitations on the scope of its work.
 - (iii) The professional competence of internal audit.
 - (iv) The extent of the control and supervision of its work.
 - (v) The adequacy of evidence of work carried out by internal audit.
 - (vi) The extent of internal audit coverage.
 - (vii) The nature and frequency of, and response to, reports issued by the Internal Audit.

SOLUTION 4

- (a) The procedures to be adopted to uncover teaming and lading include:
- i. Thoroughly examine the make-up of sales ledger accounts noting any customers who formerly have been paying promptly but whose accounts now appear to be falling into arrears. Or where amounts are paid on account where formally outright settlement had been made.
 - ii. Request from the bank the original pay-in-slip and check the entries in the cash book with it to see whether receipts have been divided between two or more accounts.
 - iii. Check duplicate receipts with the entries in the cash book to ensure that amounts and dates of entry agree.
 - iv. Circularize Debtors to confirm the balances on their accounts.
 - v. Carry out cash count of all cash held.
- (b) Verification procedures for Bank Overdraft should include:
- (i) Examine the authority for the creation of the liability by examining the Board Minutes.
 - (ii) Ensure that the overdraft facility has been renewed for the year under review.
 - (iii) Check the security for the facility examining its existence and value vis-à-vis the amount of the facility.
 - (iv) Ensure that interest on the overdraft facility has been appropriately captured in the accounts.
 - (v) Obtain confirmation from the bank as to the balance stated in the Balance Sheet.

- (vi) Ensure that the limit of the facility is not exceeded.
- (c) Working papers are maintained for the following reasons:
- i. To assist the senior partner in assessing whether or not work assigned to audit staff have been properly carried out.
 - ii. To provide an appreciable degree of evidence of work performed and the various conclusions drawn thereon in enabling the auditor to express his opinion on the financial statement.
 - iii. To serve as a tool for training staff on the job and ensure consistency and uniformity of work done.
 - iv. To encourage the auditor to adopt a methodical approach to his work.
 - v. To serve as a documentary evidence for future reference.
 - vi. To provide the basis for the evaluation of the professional competence of audit staff.
 - vii. To provide a permanent record for data collected in the course of Audit.
- (d) Uses of audit software to the auditor include:
- i. Selection of representatives or randomly chosen transaction or items for audit tests.
 - ii. Comparison of files at succeeding year ends, for example, to identify changes in the composition of stock.
 - iii. Scrutinizing of files and selection of exceptional items for examination.
 - iv. Comparison of two files and printing out differences – eg. Payrolls at two selected dates.
 - v. Preparation of exceptional reports.
 - vi. Stratification of data with a view to examining only material items.
 - vii. Carrying out detail tests and calculations.

SOLUTION 5

- (a) (i) The purposes of issuing the Management Letter include:
- 1. To enable the auditor to give his comments on the accounting records, systems and controls.
 - 2. To enable the auditor to bring to the attention of management areas of weakness that might lead to material errors.

3. To meet audit engagement requirement eg. Local authorities audit.
 4. To enable the auditor to communicate matters that may have an impact on future audits.
 5. To enable the management to put right matters that may otherwise have led to audit report qualification.
 6. To enable the auditor to point out areas where management could be more efficient or more effective.
- (ii). The contents of Management Letter include:
1. A list of weaknesses in the structure of accounting systems and internal controls. Eg. No serial numbering of sales invoices.
 2. A list of deficiencies in operation of the records or controls. Eg. Where controls are by-passed under pretext of urgency.
 3. Unsuitable accounting policies and practices.
 4. Non-compliance with accounting standards or legislation.
 5. Explanations of the risks arising from each weakness.
 6. Comments on inefficiencies as well as weaknesses
 7. Recommendations for improvement.
- (b) The following circumstances would require a qualification of the audit report according to the Ghana companies code 1963 Act 179:
- (i) Where the accounts do not show a true and fair view.
 - (ii) Where proper accounting records have not been kept.
 - (iii) Where proper returns have not been received from branches not visited by the Auditor.
 - (iv) Where the accounts are not in agreement with the books and returns.
 - (v) Where the account fails in other ways to comply with the Companies Code or other legislation.
 - (vi) Where in the case of a holding company submitting group accounts if the accounts fail to give a true and fair view of the position of the group.
 - (vii) Where adequate information and explanation have not been provided by officers of the company.