

QUESTION 1

- {a} Your firm is auditing the consolidated financial statements of Seeing Eyes Group of Companies. One of the items assigned to you to audit is inter-company profits (unrealized profits) on inventories.

Required:

Outline the procedures you would carry out to audit the inter-company profits.

(5 marks)

- {b} Kodadwene Financial Services Ltd. operates a microfinance company with a number of branches in the city. The branches report to the Head Office on quarterly basis.

During the end of 2011 accounting year's audit, the auditors reported that there had been a massive misappropriation of customer deposits in one of the branches. Management has interdicted the branch manager and the branch accountant as well as two mobile bankers who were suspected to be involved in the fraud. The case is in legal hands and is being prepared for court.

Your firm of chartered accountants, Yerehwehwem Consult, has been approached to carry out a forensic audit into the case. The firm has accepted the engagement and an investigation team with you as the leader, has been put in place. The team is planning the investigation.

Required:

- {i} Identify the matters that should form the objectives of the investigation and which should be included in the investigation plan.

(5 marks)

- {ii} What should the client expect from the Investigation Report to be issued?

(5 marks)

- {c} In performing an audit of financial statements the auditor should have or obtain knowledge of the business sufficient to enable the auditor to identify and understand the events, transactions and practices that in the auditor's judgment may have sufficient effect on the financial statements, or on the examinations or the report. Such knowledge is used by the auditor in assessing inherent and control risks and in determining the nature, timing and extent of audit procedures.

Required:

Determine the sources from which the auditor could obtain knowledge of the Insurance industry and Aberempon Insurance Company Limited, a newly engaged client.

(5 marks)

(Total: 20 marks)

QUESTION 2

{a} Under what circumstances will a change in accounting policies be permissible? (3 marks)

{b} As an audit partner describe ten issues you will consider when reviewing audit working papers. (5 marks)

J. H. Holdings is a company with twenty-one (21) subsidiaries. The subsidiaries produce different products such as drugs, nails, boats, soft drinks etc. Six (6) of the subsidiaries are audited by different auditing firms. Nyame Ye, a firm of Chartered Accountants, is the principal auditor.

Required:

{c} Describe the matters the Managing Partner of Nyame Ye would have to consider before accepting to be the Principal Auditors. (5 marks)

{d} As the Principal Auditor, assess five (5) inherent risks and present a draft risk register of J.T. Holdings audit. (7 marks)

(Total: 20 marks)

QUESTION 3

You are the manager on the audit of Maanu Arrivals, a limited liability company which operates 10 shops for ladies designer fashion wears. Your firm, Ekuona Associates, a small firm of Chartered Accountants has been the auditor of this company since its incorporation 10 years ago. You are engaged in the audit planning for the year ended 31st December, 2012.

All the company's shops are long established and have a cosmetics and grooming sections attached to the fashion shops.

Point-of-sale microcomputers are installed in all shops, linked online via a network to computers at the head office. Sales and inventory data are input direct from the microcomputers at the branches.

The company has introduced online sales to enable customers to view and order for items in inventory via the internet. Payments for online sales are made by direct bank deposits before items are sent to buyers by despatch riders from the nearest shop.

The company has a large accounting section at the head office which is responsible for continuous monitoring of inventory, sales and of internal controls over inventory movements and sales in the organisation.

The managers of the shops are given annual bonuses based on the performance of their respective shops.

Required:

- {a} Detail the analytical procedures that you would adopt during the planning of the audit. (8 marks)
- {b} Discuss six controls you would expect management to implement before the introduction of the online sales system. (6 marks)

Social and environmental issues have become important for the statutory auditor in recent years because these issues are important to the company as they can potentially impact on the financial statements. In Ghana, these issues have become even more important due to exploration for discovery and exploitation of Oil and Gas in our territorial waters. Social and environmental issues are also required to be considered under the International Standards of Auditing – ISA 250. Consideration of laws and regulations in the audit of financial statements and social and environmental issues impact all the stages of audit in terms of:

- {i} Knowledge of the business (ISA 315)
- {ii} Inherent risk assessment (ISA 315 and 330)

Required:

- {c} Discuss six (6) situations where social and environmental issues can potentially impact the financial statements.

(6 marks)

(Total: 20 marks)

QUESTION 4

- {a} In a conversation with the Marketing Manager of your company over lunch, you expressed how tight you are at the office, trying to produce this year's financial statements from material misstatements due to fraud or errors.

The Marketing Manager however said, "why worry, after all the auditors would come and look for such fraud and errors in the financial statements".

Required:

As the Financial Controller of the company respond to the Marketing Manager's expectation by explaining the "expectation gap" in audit giving further examples of the public perception of audit.

(4 marks)

- {b} Pink Insurance Company Ltd. has appointed Proper and Better and Co., a firm of chartered accountants, as its new auditors to audit its financial statements for the year 2012. You were engaged as Senior audit assistant of the firm since last year.

The audit manager has assigned the checking of the opening balances schedule to the audit team over which you are the team leader. The following are the items on the schedule:

- Property and Equipment	-	50 million
- Computer Hardware	-	2 million
- Computer Software	-	3 million
- Accounts Receivable	-	10 million
- Accounts Payable	-	8 million

At the briefing meeting, the audit manager asked your team to prepare audit procedures for the audit of the opening balances.

Required:

Outline the audit procedures that should be used to verify the opening balances of Pink Insurance Company Ltd.

(10 marks)

- {c} The auditor's responsibility is to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.

At the review stage of your firm's audit of Bombom Ltd. your audit team identified events and conditions which cast significant doubt on the entity's ability to continue as a going concern.

Required:

- {i} Outline the immediate action that the team should take. (3 marks)

- {ii} What going concern indicators will you seek to identify in your review of the audit before taking any action? (3 marks)

(Total: 20 marks)

QUESTION 5

- {a} You are the auditor of HOLALA Ltd. and during the course of your audit for the period ended 31 December, 2012 you noted that some of the fixed assets were not labelled and so no fixed assets register was maintained.

The effect of unlabeled movable fixed assets, such as office equipment and computers could result in theft since they are difficult to trace.

Required:

- {i} What matters would you, as an auditor, direct your attention to when examining the fixed assets register maintained by a large limited company?

- {ii} State how useful the fixed assets register would be for both the client and the auditor.

- {iii} Indicate six contents of a typical fixed assets register.

(15 marks)

- {b} You are an audit manager of OWURAKU & Co., a large audit firm which specializes in the audit of retailers. The firm currently audits Ethel Co., a food retailer, but Ethel Co's main competitor Harry Co. has approached the audit firm to act as auditors. Both companies are highly competitive and Ethel Co. is concerned that if Owuraku & Co audits both companies then confidential information could pass across to Harry Co.

Required:

Explain the safeguard that your firm should implement to ensure that this conflict of interest is properly managed.

(5 marks)

(Total: 20 marks)