

**MAY 2021 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 was reasonably high. The questions were well within the syllabus in terms of structure and weightings. The paper was free from errors and very clear without any ambiguity. Candidates were tasked to use analytical and evaluative skills to answer most of the questions.

PERFORMANCE OF CANDIDATES

Candidates' performance was abysmal considering performances in previous sittings. 24.12% of candidates who sat for the May 2021 examinations passed against 39.28% who passed in the November 2020 examinations. It appeared some candidates did not take the time to understand the requirements of the questions. Reading through the scripts, it emerged that candidate did individual work with no sign of copy work as no two answers appeared the same.

QUESTION ONE

- a) Fundamental principles require that a member of a professional accountancy body behave with integrity in all professional, business, and financial relationships and strive for objectivity in all professional and business judgments. Objectivity can only be assured if the member is and is seen to be independent. Conflicts of interest have an essential bearing on independence and the public's perception of the accounting profession's integrity, objectivity, and independence.

The following scenario is a press report on a multinational firm of accountants:

The regulatory body directed a partner in a firm that he must resign because he was in breach of the regulatory body's independence rules. His brother-in-law was the Financial Controller of an audit client. He was informed that the alternative was for him to move his home and place of work at least 400 miles from the client's office, even though he was not the reporting partner. This made his job untenable. The accounting firm saw the regulatory body as 'taking its rules to absurd lengths'. Shortly after this comment, the multinational firm announced proposals to split the firm into the following areas: audit, tax and business advisory services; management consultancy; and investment advisory services.

Required:

In relation to integrity, objectivity and independence, discuss the impact the above events may have on the public perception of the multinational firm of accountants. **(10 marks)**

- b) Your audit client, Asuoyeboa Ltd, has recently hired an Internal Auditor to deal with increased regulatory requirements. Afrakoma, the CEO of Asuoyeboa Ltd, has indicated that she believes the presence of the Internal Auditor will dramatically reduce the work that your audit firm will have to perform. She anticipates that this will have an impact on the audit fee.

Required:

Draft a report indicating factors that will influence the extent to which the external auditors will rely on the Internal Auditors' work as per the requirements imposed by ***ISA 610: Using the Work of Internal Auditors.*** **(10 marks)**

(Total: 20 marks)

QUESTION TWO

Oliso Private Company Ltd has been operating in the manufacturing sector for over a decade. One of its major products is manufacturing equipment, which can reduce toxic emissions in the production of chemicals. The company recently employed a new marketing manager who introduced series of marketing initiatives. This has resulted in significant growth of the company since the appointment of the marketing manager. One of the initiatives is the warranties that the company gives to its customers. The company guarantees its products for three years, and if problems arise within the period, it undertakes to fix them or provide a replacement for the product.

You are the Senior Manager recently engaged by Integrity Audit Consult responsible for Oliso Private Company Ltd's audit. You are performing the final review as required by ***ISA 520 Analytical procedures for the audit*** and have come across the following issues.

Receivable balance due from Obey Company Ltd.

Oliso Private Company Ltd has a material receivable balance due from a customer named Obey Company Ltd. During the year-end audit, your team reviewed the ageing of this balance and found that no payments had been received from Obey Company Ltd for over eight months. Oliso Private Company Ltd however would not allow this balance to be included in the list of balances to be circulated. Instead, management has assured your team that they will provide a written representation confirming that the balance is recoverable.

Warranty provision

The warranty provision included in the statement of financial position is material. The audit team has performed testing over the calculations and assumptions, which are consistent with prior years. The team has requested a written representation from management confirming the basis and amount of the provision. Management is yet to confirm acceptance of the need to issue this representation.

Required:

- a) Recommend **THREE (3)** audit procedures to validate the accounting estimates. **(5 marks)**
- b) For each of the two issues above:
 - i) Evaluate the appropriateness of written representations as a form of audit evidence. **(4 marks)**
 - ii) Describe **TWO (2)** additional procedures the auditor should perform to conclude on the balances to be included in the financial statements. **(6 marks)**
- c) The directors of Oliso Private Company Ltd have decided not to provide the audit firm with the written representation for the warranty provision as they feel it is unnecessary.

Required:

Explain the steps the auditor of Oliso Private Company Ltd should take to assess the impact of management's refusal to provide a written representation on the auditor's report.

(5 marks)

(Total: 20 marks)

QUESTION THREE

You have recently been promoted to Senior Manager of Life Matters and Associates, a firm of Chartered Accountants. As part of your job description, you are to handle two clients in a given month. Below are some issues you will be faced with during the audit of these clients. The financial year-end for each client is 30 September 2020.

You are reviewing the Audit Senior's draft auditor's reports for the two clients, Factory Co Ltd and Toys Co Ltd.

Toy Co Ltd

The Audit Senior suggests that Toys Co Ltd's audit opinion should not be qualified but should include an emphasis of matter paragraph after the audit opinion to highlight the situation below:

In October 2020, a legal claim was filed against Toys Co Ltd, by a toy retailer. The suit was from a customer who slipped on a greasy step outside one of the retail outlets. The matter has been fully disclosed as a material contingent liability in the notes to the financial statements. Audit working papers also provided sufficient evidence that no provision is necessary as Toys Co Ltd's lawyers have stated in writing that the likelihood of the claim succeeding is remote. The amount of the claim is fixed and is adequately covered by cash resources.

Factory Co Ltd

Factory Co Ltd, a listed company, permanently closed several branches in May 2020, with all closure costs finalised and paid in August 2020. The said branches all produced the same items, which contributed 10% of Factory Co Ltd's total revenue for the year ended 30 September 2020 (2019 – 23%). The closure has been discussed accurately and fully in the Chairman's statement and Directors' Report. However, the closure was not stated in the notes to the financial statements nor separately disclosed on the financial statements.

The audit senior has proposed an unmodified audit opinion for Factory Co Ltd as the matter has been fully addressed in the Chairman's statement and Directors' Report.

Required:

- a) Evaluate whether the Audit Senior's draft auditor's report is appropriate, and where you disagree, recommend the amendment necessary to the draft auditor's report of:
 - i) Toy Co Ltd (4 marks)
 - ii) Factory Co Ltd (6 marks)
 - b) Assuming the auditors of Life Matters and Associates are contemplating whether to use emphasis of matter paragraph and other matter paragraph in the audit report, explain both options and the situations when each is relevant. (10 marks)
- (Total: 20 marks)

QUESTION FOUR

- a) ISSAI 1706 (Revised) provides the requirements for an auditor who, having formed an opinion on the financial statements, has determined that it is necessary to draw users' attention, by way of clear additional communication in the auditor's report, to:
- (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
 - (b) As appropriate, any other matter relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Required:

What additional guidance for public sector auditors relates to "Emphasis of Matter Paragraphs" in the Auditor's Report? **(10 marks)**

- b) Performance audit is an independent assessment of an entity's operations, typically associated with government agencies. The goal is to evaluate the performance of a stated program to determine their effectiveness and to make changes if needed. Performance audit often include an analysis of the conditions that are necessary to ensure that the principle of economy, efficiency and effectiveness can be upheld. It is necessary in performance audit to document the audit plan in an audit engagement.

Required:

- i) Discuss the principle of performance audit. **(6 marks)**
- ii) Describe **FOUR (4)** documentary evidence useful at the planning stage during an audit exercise. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Money laundering has become a significant threat to the world's political and economic order. World leaders are collaborating and cooperating in fighting money laundering. However, criminals are maliciously clever and, in some cases, ahead of law enforcement agencies. Every human being has to contribute to the fight against money laundering.

Required:

- i) Assess why **money laundering** poses a big threat to the world's **political and economic order**. **(5 marks)**
 - ii) Discuss **FIVE (5)** ways in which Ghana is contributing towards fighting money laundering globally. **(5 marks)**
- b) Mike Developers' Audit Manager is of the view that audit software can be used effectively in the audit of revenue and trade receivables. He has discussed this with the firm's computer audit department and with Mike Developers' Finance Director, and this approach has been agreed as a feasible one. Furthermore, the Finance Director has asked the internal audit

team to investigate the possibility of installing embedded software to help the external auditors in their work.

Required:

- i) Describe, giving examples, how audit software, in general, could assist the audit firm in their audit of revenue and trade receivables. **(6 marks)**
- ii) Discuss the extent to which the external auditor could rely on the results of the internal auditor's use of embedded software. **(4 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

- a) It is important that auditors are, and are seen to be, independent. **Independence** is at the heart of the auditing profession as auditors claim to give an **impartial, objective** opinion on the truth and fairness of the financial statements.

Objectivity

A **family relationship** between an auditor and the client **can substantially affect the objectivity** of the auditor, so auditors are advised not to build close personal relationships with audit clients and should not audit a company where a family member is employed in a capacity that is sensitive to the accounts, for example, in the finance department. However, this is **not prohibited by law** unless the auditor's 'partner' is an employee of the company.

In this instance, the **partner was not the reporting partner** for the audit client in which his brother-in-law was a finance controller. According to generally accepted ethical practice, the firm appeared to be independent of the audit client if the related partner did not have anything to do with the audit.

Resolution

The regulatory body required the auditor to move 400 miles. This presumably implies that the partner was requested to change offices within the firm he employed. However, given current levels of computer networking and other **communications** common in business, this would appear to be an **arbitrary distinction**. As a partner in an office, Glasgow could have similar access, and influence over a single audit carried out by the firm as a partner in London.

Independence in appearance

However, in this situation, the regulatory body to be concerned that the public will not perceive the distinction between a partner and a partner who reports on a specific engagement. This may or may not be fair.

Arguably, it is only in publicising the problem that the public is likely to have a perception at all.

Also, given the comments made about modern communications above, the public is unlikely to be convinced that moving a staff member to a different office will solve this independence problem if they perceive that there is one.

Split of audit firm

The decision of the firm to split into three divisions could **enhance the public perception of the independence of the audit department**. While there might be **underlying scepticism** about the reasons behind the split (which could merely be for marketing purposes or to enable non-audit divisions to raise capital more efficiently), the **underlying benefit for objectivity still exists**.

However, the move would respond to the requirements of the new Companies Act, 2019 (Act 992), which prohibits audit firms from offering other services to an audit client.

(10 marks)

b)

To: CEO
From: Audit Senior
Date: 01/09/2020

Re: Report on factors determining the External Auditors reliance on Internal Auditors' work

Factors that may affect the external auditor's determination of whether the work of the internal auditors is likely to be adequate for the audit include:

Objectivity

- The status of the internal audit function within the entity and the effect such status has on the ability of the internal auditors to be objective.
- Whether the internal audit function reports to those charged with governance or an officer with appropriate authority, and whether the internal auditors have direct access to those charged with governance.
- Whether the internal auditors are free of any conflicting responsibilities.
- Whether those charged with governance oversee employment decisions related to the internal audit function.
- Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance.
- Whether and to what extent management acts on the recommendations of the internal audit function, and how such action is evidenced.

(2 points for 2 marks)

Technical competence

- Whether the internal auditors are members of relevant professional bodies.
- Whether the internal auditors have adequate technical training and proficiency as internal auditors.
- Whether there are established policies for hiring and training internal auditors.

(2 points for 2 marks)

Due professional care

- Whether activities of the internal audit function are properly planned, supervised, reviewed and documented.
- The existence and adequacy of audit manuals or other similar documents, work programs and internal audit documentation.

(2 points for 2 marks)

Communication

Communication between the external auditor and the internal auditors may be most effective when the internal auditors are free to communicate openly with the external auditors, and:

- Meetings are held at appropriate intervals throughout the period;
- The external auditor is advised of and has access to relevant internal audit reports and is informed of any significant matters that come to the attention of the internal auditors when such issues may affect the work of the external auditor; and
- The external auditor informs the internal auditors of any significant matters that may affect the internal audit function.

(2 points for 2 marks)
(Format and presentation = 2 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Candidates were able to discuss the threat posed to the multi-national firm due to one of its partners being a brother-in-law of the financial controller of an audit client. However, many candidates could not spell out the public perceptions arising from the situation and whether the practice offices could change the public perceptions about the firm. As a result, the candidates' performance was not encouraging.

The b) part of the question was well answered by many candidates, but the report form demanded by the requirement was not appropriately illustrated.

QUESTION TWO

- a) Procedures the auditor should adopt in respect of auditing accounting estimates include:
- Inquire of management how the accounting estimate is made and the data on which it is based.
 - Determine whether events occurring up to the date of the auditor's report (after the reporting period) provide audit evidence regarding the accounting estimate.
 - Review the method of measurement used and assess the reasonableness of assumptions made.
 - Test the operating effectiveness of the controls over how management made the accounting estimate.
 - Develop an expectation of the possible estimate (point estimate) or a range of amounts to evaluate management's estimate.
 - Review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias.
 - Evaluate overall whether the accounting estimates in the financial statements are either reasonable or misstated.

- Obtain sufficient appropriate audit evidence about whether the disclosures in the financial statements related to accounting estimates and estimation uncertainty are reasonable.
- Obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.

(Any 5 points @ 1 mark each = 5 marks)

b)

Receivables balance owing from Obey Company Ltd

- i) The written representation proposed by management is intended to verify the valuation, existence and rights and obligations of a material receivables balance. However, as management has refused to allow the auditor to circularise the balance and there has been little activity on the account for the past eight months, then there is very little evidence that the auditor has obtained.
- This representation would constitute entity generated evidence, and this is less reliable than auditor generated evidence or evidence from an external source. However, if related control systems operate effectively, then this evidence becomes more reliable. In addition, if the representation is written as opposed to oral, this will increase the reliability as an evidence source.
- Overall this representation is a weak form of evidence, as there were more reliable evidence options available, such as the circularisation, but this was not undertaken.

(2 marks)

- ii) To reach a conclusion on the balance, the following procedures should be performed:
 - Discuss with management the reasons as to why a circularisation request was refused.
 - Review the post year-end period to identify whether any cash has now been received from Obey Company Ltd
 - Review correspondence with Obey Company Ltd to assess reasons for the continued non-payment.
 - Review board minutes and legal correspondence to assess whether any legal action is being taken to recover the amounts due.
 - Discuss with management whether a provision or write down is now required.
 - Consider the impact on audit opinion if balance is considered to be materially misstated.

(3 points for 3 marks)

Warranty provision

- i) In this case, the auditor has performed some testing of the provision to obtain auditor-generated evidence. The team has tested the calculations and assumptions. None of this is evidence from an external source.
The very nature of this provision means that it is difficult for the auditor to obtain a significant amount of reliable evidence as to the level of future warranty claims.

Hence the written representation, whilst being an entity generated source of evidence, would still be useful as there are few other alternatives.

(2 marks)

ii) To reach a conclusion on the balance, the following procedures should be performed:

- Review the post year-end period to compare the level of claims actually made against the amounts provided.
- Review the level of prior year provisions with the amounts claimed to assess the reasonableness of management's forecasting.
- Review board minutes to assess whether any changes are required to the level of the provision as a result of an increased or decreased level of claims by customers.

(3 points for 3 marks)

c) **Steps to take if written representation on warranty provision is not provided**

- ISA 580 Written Representations guides the auditor when written representations are requested from management, but they refuse to provide.
- If management does not provide the requested written representation on the warranty provision, the auditor of Oliso Private Company Limited should discuss the matter with management to understand why they are refusing.
- In addition, the auditor should re-evaluate the integrity of Oliso Private Company Limited' management and consider the effect that this may have on the reliability of other representations (oral or written) and audit evidence in general.
- The auditor should then take appropriate actions, including determining the possible effect on the audit opinion.

Impact on the audit report

- As the auditor cannot obtain sufficient appropriate evidence to conclude that the warranty provision is free from material misstatement, a modified audit opinion will be required.
- The warranty provision is material but not pervasive, and therefore a qualified opinion would be appropriate.
- The opinion paragraph will be amended to state 'except for' for the lack of evidence on the warranty provision, the financial statements show true and fair view.
- The audit report will require an additional paragraph known as the basis for the qualification paragraph after the opinion paragraph, which will describe the reason for the modification, namely that management refusal to provide a written representation in relation to the warranty provision and hence the reason for the except for opinion.
- The materiality of the warranty provision will be stated in the basis for the opinion paragraph.

(Any 5 points for 5 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Majority of the Candidates could not recommend the 3 audit procedures to validate accounting estimates as required by question 2a).

For bi&iii), some candidates were able to determine the appropriateness of management representation as a form of audit evidence for accounts receivables and warranty and additional procedures to confirm the balances. General performance was good.

Question 2c) was on steps to assess the impact of management refusal to provide the auditor with management representations on the auditor's report. This was well answered by many candidates.

QUESTION THREE

a) Life Matters and Associates

i) Toys Co Ltd

The claim was an event after the balance sheet date. Suppose the accident occurred before the year-end of 30 September 2018. In that case, the claim gives additional evidence of a year-end condition and thus meets the definition of an adjusting post balance sheet event. In this case the matter appears to have been properly disclosed in the notes to the financial statements per *IAS 10: Events After the Balance Sheet Date* and *IAS 37: Provisions, Contingent Liabilities and Contingent Assets*. A provision would only be necessary if the claim was probable to succeed and there is sufficient appropriate evidence that this is not the case. There is, therefore, no material misstatement and (inability to obtain sufficient appropriate audit evidence).

Therefore the audit manager is correct to propose an unmodified opinion.

However, the audit report doesn't need to contain an emphasis of matter paragraph.

ISA 705: Modifications to the Independent Auditor's Report states that an emphasis of matter paragraph should be used to highlight a matter where there is significant uncertainty.

Uncertainties usually are only regarded as significant if they involve a level of concern about the company's going concern status or would have an unusually significant effect on the financial statements. This is not the case here, as there is enough cash to pay the damages in the unlikely event that the claim goes against Toys Co Ltd. This appears to be a one-off situation with a low risk of the estimate being subject to change, and thus there is no significant uncertainty.

(4 marks)

Factory Co Ltd

The factory closures constitute a discontinued operation per *IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations* due to discontinuing a separate major component of the business. It is a major component due to the 10% contribution to revenue in the year to 30 September 2018 and 23% contribution in 2017. In addition, it is a separate business component of the company due to the factories having made only one item, indicating a separate income generating unit.

Under IFRS 5 there must be separate disclosure on the face of the income statement of the post-tax results of the discontinued operation and of any profit or loss resulting from the closures. The revenue and costs of the discontinued operation should be separately disclosed either on the face of the income statement or in the notes to the financial statements. Cash flows relating to the discontinued operation should also be separately disclosed per *IAS 7: Cash Flow Statements*.

In addition, as Factory Co Ltd is a listed company, *IFRS 8: Operating Segments requires separate segmental disclosure of discontinued operations*.

Failure to disclose the above information in the financial statements is a material breach of International Accounting Standards. The audit opinion should therefore be qualified on the grounds of disagreement on disclosure requirements of IFRS 5, IAS 7 and IFRS 8. The matter is material but not pervasive, and therefore an 'except'. The opinion paragraph should clearly state the reason for the qualification and indicate the financial significance of the matter.

The audit opinion relates only to the financial statements that have been audited. Therefore, the contents of the other information (chairman's statement and Directors' Report) are irrelevant when deciding if the financial statements show a true and fair view or are fairly presented.

(6 marks)

b)

Emphasis of matter paragraph

An 'emphasis of matter' paragraph is used to draw the reader's attention to a matter presented or disclosed in the financial statements, which is fundamental to understanding those financial statements.

When an auditor's report contains an emphasis of matter paragraph, the opinion is not modified. Therefore, it can only be used where the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. (If the matter is materially misstated, a modified opinion is required.)

Although the opinion is not modified, there is an item in the financial statements, properly presented or disclosed, that the auditor wishes to bring to the attention of users because it is fundamental to an understanding of the financial statements.

Circumstances in which an emphasis of matter paragraph may be necessary

ISA 706 (revised) gives the following examples of circumstances in which an emphasis of matter paragraph may be required:

- Where there is an uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- Where the entity has adopted a new IFRS early which has had a pervasive effect on the financial statements.
- To draw attention to a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- Early application of a new accounting standard that has a pervasive effect on the financial statement

Other matter paragraphs

An 'other matter' paragraph is used if the auditor considers it necessary to communicate a matter other than those included in the financial statements that, in his opinion, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Or this is the paragraph that is used to highlight a matter that has not adequately been presented and disclosed in the financial statement but in the auditor's judgment is fundamental for user's understanding of the audit, audit work and the auditor's responsibility.

Circumstances in which other matter paragraph may be necessary

ISA 706 gives the following examples of circumstances in which an 'other matter' paragraph may be required:

- Where the auditor is unable to resign from the engagement even though the possible effect of a limitation of scope imposed by management is pervasive (relevant to users' understanding of the audit). This should be rare in practice.
- Where local law or custom allows the auditor to elaborate on his responsibilities in his report (relevant to users' understanding of the auditor's responsibilities or auditor's report).
- Another example when another matter paragraph might be used is when the prior year financial statements were audited by a previous auditor, or not audited because this is the first-year audit for the current auditor.
- The auditor is reporting on a set of financial statements prepared using different frameworks, e.g. both IFRS and GAAP.

(10 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Question 3a) required candidates to determine the appropriateness of the draft audit opinion submitted by the senior auditor. Some candidates were able to determine the draft opinion in i) was appropriate but could not determine that the 'emphasis of matters' paragraph was unnecessary. Majority of candidates however, could not determine the appropriate opinion for ii). The candidates' performance was average.

Many candidates could explain emphasis of matter paragraph and other matter paragraph in audit reports and the circumstances in which they are used.

QUESTION FOUR

- a) In the public sector, audit mandates or expectations may expand circumstances relevant for reporting by public sector auditors in an Emphasis of Matter paragraph. When considering reporting in an Emphasis of Matter paragraph, the examples provided below must be considered:
- Legislative actions on programs or the budget;
 - Contradictive laws, regulations or directives with a significant effect on the entity;
 - Fraud, abuse or losses;
 - Significant transactions;
 - Significant internal control deficiencies;
 - Questionable business practices;
 - Transactions entered into without due regard for the economy;
 - Prior period restatements;
 - Environmental issues;
 - Corporate social responsibility issues;
 - Ethical issues (proper behaviour by public officials); or
 - Ineffective and uneconomical use of public assets.

(Any 1 point @ 1 mark each = 10 marks)

- b)
- i) Economy; minimising the cost of resources used for an activity, having regard to appropriate quality. It is concerned with the availability of resources 1. In due time 2. Inappropriate quantity and quality 3. At the best price.

Efficiency; Getting the most from the available resources, resources have been put to optimal use or whether similar results could be achieved with fewer resources. It is concerned with 1. relationship between resource employed, 2. condition given and results achieved, quality and quality 3. and timing of outputs and outcomes.

Effectiveness; Effectiveness is concerned with, 1. Meeting the objective set and achieving the intended results 2. It is a goal attainment concept 3. Also involved with ascertaining whether the impacts observed are the result of policy or other circumstance

(3 principles @ 2 marks=6 marks)

- ii) Information to be documented in Performance Audit for enhancement of audit work may include;
- Background knowledge and information of the entity; name address, what it does, organisation structure, senior management personnel and their qualification,

history, objectives, strategies etc. This will help the auditor to understand the nature of the work and facilitate his work.

- Audit objectives and sub-audit objectives. What the auditor wants to achieve and the level of achievements
- Audit scope, the area of the audit and the likely time of coverage
- Audit criteria; what the audit should be
- Audit methodology; the approach to be used for the audit.
- Activity plan covering staff requirement expertise, external expertise needed.
- The estimated cost of the audit
- Key projects timeframe, milestones and control points

(4 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Question 4a) required knowledge of ISSA1 1706(REVISED), ie matters to be included in emphasis of matter paragraph in the auditor's report under public sector audit. Just a few candidates were able to provide the right answers. The majority provided solutions relevant to the requirements under ISA706; hence a deviation

For 4bi), candidates were to discuss the principle of performance audit. Many candidates did justice to the question4bii) that required candidates to discuss the documentary evidence useful at the planning stage of an audit. However, this question was poorly answered by candidates.

QUESTION FIVE

a)

i) **Money Laundering**

- Money laundering puts large sums of illegal money into the hands of criminals who use such funds on financial and political crises and upheavals.
- Money launderers would often set up Ponzi schemes which entice people to withdraw their savings from the traditional deposit takers and fund managers into their scheme. This tends to undermine the official financial and banking system of the countries in which they operate.
- When they succeed, they introduce large amounts of money into the economy without an immediate corresponding rise in goods and services, resulting in hyperinflation. As a result, weak third world countries may not be able to absorb the shocks and their economies may crumble.
- Money laundering has been found to be a significant source of funds to international terrorist organisations. They use the resources to engage in terrorist activities that lead to wanton destruction of human lives and properties. In countries where money launderers and terrorists gain a strong foothold, they become failed states.
- Money launderers could use their ill-gotten money to finance coups de tat in countries facing hardships or poverty.

(5 point @ 1 mark each = 5 marks)

ii) **Ghana contribution towards fighting Money Laundering**

- Ghana has joined other well-meaning countries in the fight against money laundering and terrorism financing.
- Ghana has subscribed to the world anti-money laundering and terrorism financing organisation and is implementing the 48 FAFT recommendations.
- Ghana is also a member of GIABA the West African organisation fighting against money laundering and terrorism financing.
- Ghana has entered into a treaty with other countries for collaboration in the arrest, prosecution and confiscation of assets illegally acquired by money launderers. The proceeds from sale are shared among collaborating countries.
- Ghana has passed the anti-money laundering law and anti-money laundering regulation, all in the fight against money laundering.
- Many organisations are in the forefront in the fight against money laundering in Ghana, including EOCO, the Financial Intelligence Centre, and other Security Agencies such as Ghana Immigration Service and Interpol.

(Any 5 points @ 1 mark each = 5 marks)

b)

- i) Use of audit software in the audit of revenue and receivables tests of controls.
- Audit software could be used in the performance of computer controls such as sequence checks on pre-numbered documents.

- Audit software could be used to detect the violation of system rules or the presence of an unreasonable item on the master file. Examples of such techniques might include the following:
 - Identify (by comparison with sales ledger balance) all those customers who have
 - Print a report of customers with no entry in their credit limit field.
 - Print a report of all customers whose trade discounts exceed, say, 30%.
- Substantive procedures
Audit software can scrutinise a large volume of data quickly and extract information for the auditor to check/investigate. An example might include the following:
 - Performance of the client's work (an aged analysis of receivables)
 - Checking the cast on the transaction making up a balance.
 - Calculating key ratios, e.g. trade receivables collection period.
 - Selecting a stratified sample for the direct confirmation of the receivables printing confirmation request.
 - Identifying unmatched transactions (e.g. round sum payments on account)
 - Listing all credit notes issued after the year-end in excess of a certain amount.
 - Listing all accounts with a credit balance in excess of a certain amount.

(3 principles @ 2 marks=6 marks)

- ii) The extent of external auditor's reliance on the internal auditor's use of embedded software includes.
- Assessment of internal auditors' organisational status
 - The scope of internal auditor's work
 - Due professional care and competences
 - Independence
 - The security of the software
 - The security of the data extracted for review
 - The specific tasks carried out by the software and their relevance to the external audit.

(4 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Question 5a had two sub-questions; i) threats money laundering pose to the world's political and economic order and ii) ways in which Ghana is contributing towards fighting money laundering globally. Many candidates made spirited attempts at i), but the answers were not precise enough. For ii) instead of discussing the present measures being taken by Ghana as a contribution to the global fight against money laundering, candidates instead made recommendations as to what measures Ghana should take.

Candidates were required in 5bi) to discuss how to audit software could assist an audit firm in the audit of revenue and receivables. Some candidates could provide some correct answers by describing the audit test that can be performed on the items in question using the audit software. Other candidates instead discussed the advantages in using the software to perform an audit – another mixed Performance.

5bii) required candidates to discuss the extent to which the external auditor could rely on the results of the internal auditor's use of embedded software. Again, many candidates were able to provide the correct answers and therefore performed very well.