

**APRIL 2022 PROFESSIONAL EXAMINATIONS
AUDIT & ASSURANCE (PAPER 2.3)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

STANDARD OF THE PAPER & PERFORMANCE OF CANDIDATES

The standard of the paper was good. The questions were practical and within the syllabus in terms of structure and weightings. The paper was free from errors. The rubrics of the paper were very clear without any ambiguities.

PERFORMANCE OF CANDIDATES:

As compared to the November 2021 diet, which was 71% score above the pass mark of 50%, the April 2022 diet was 77% score above the 50% pass mark. This diet saw an improved performance over the November 2021 diet. This may be attributed to improved tuition provision, as providers now have good grasp of the syllabus.

Question 4b) was a high scoring question because it is practical and popular, especially the bii). Question 4aii) was however mixed because candidates found it a bit tricky. The performance of candidates in question 3 was below expectation even though it was a straightforward question. Most candidates mixed up their understanding for net realizable value for inventory with that of PPEs.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES:

The strength of most candidates was demonstrated in question 1a), c) and d), question 2a) as well as question 4b) and question 5a).

Areas of weaknesses identified with candidates were question 3a) and question 5b). Candidates were unable to adequately express their thoughts on paper due to weakness in English language. Some candidates could not demonstrate adequate understanding of modifications to the opinion of the independent Auditor's Report.

QUESTION ONE

- a) Audit is the examination or inspection of various books of accounts by an auditor to certify that the accounts have been prepared according to the principles of accounting and to determine whether the Financial Statements prepared reflect a true and fair view of the state of affairs of a business.

Required:

State the;

- i) Primary objective of an audit.
ii) Secondary objectives of an audit. **(5 marks)**
- b) *ISA 520: “Analytical Procedures”* provides guidance to auditors on the use of analytical procedures during the course of an external audit.

Required:

Explain **FIVE (5)** factors to consider when determining the extent of reliance that can be placed on the results of such procedures. **(5 marks)**

- c) *ISA300: “Planning an Audit of Financial Statement”* states that the auditor must plan an audit.

Required:

Enumerate **FIVE (5)** benefits or importance of planning. **(5 mark)**

- d) *ISA 620: “Using the Work of the Auditor’s Expert”* provides guidance to auditors on relying on the work carried out by experts. Even though an expert’s work might be sought for relating to a particular issue, the Auditor has sole responsibility for the audit opinion being expressed.

Required:

Identify **FIVE (5)** circumstances the work of an Auditor’s Expert may be needed.

(5 marks)

(Total: 20 marks)

QUESTION TWO

- a) The Companies Act, 2019 (Act 992) gives the auditor some rights.

Required:

- i) Identify **FOUR (4)** rights of an auditor. **(6 marks)**
ii) Explain **TWO (2)** actions auditors may take when some of the rights are denied. **(4 marks)**

- b) The function of the Institute of Chartered Accountants, Ghana (ICAG) has become a subject of discussion in recent times after the passage of the Institute of Chartered Accountants, Ghana Act, 2020 (Act 1058). The thrust of the matter is the dual role of the Institute –

promote the study of accountancy and regulate the accountancy profession and practice in the country.

Required:

- i) Identify **FOUR (4)** functions of ICAG. **(4 marks)**
- ii) Discuss the effects of the dual role exercised by ICAG. **(6 marks)**

(Total: 20 marks)

QUESTION THREE

- a) Oxtom Plc, is a publisher and producer of books of poetry. The company has been listed on the Ghana Stock Exchange. Also, it has been a client of your firm of Chartered Accountants for a number of years. The manager in-charge of the audit prior to the commencement of the work, has been discussing the audit plan with the audit team, of which you are a member. The audit manager informed the team, among other things, that there has been a growing interest in poetry generally and that the company has acquired a reputation for publishing poets who are still relatively unknown.

During your audit you observed the following:

- Contracts with the poets state that they are given a royalty of 10% on sales. Free copies of the books are provided to the poets and to some organisations such as copyright libraries and to others, such as reviewers and university lecturers. No royalties are paid on free copies.
- The computerised customer master file contains a code indicating whether a dispatch is to earn a royalty for the author. This code is shown on the sales invoice and dispatch note when they are prepared.
- A computerised royalty file is held, all entries therein bearing the invoice number and date.
- The company keeps detailed statistics of sales made, including trends of monthly sales by type of customer, and colleges where its books are recommended as part of course material.
- Bookshops have the right to return books which are not selling well, however, 10% of these are slightly damaged when returned. The company keeps similar records of returns as it does for sales.

Required:

- i) Describe **TWO (2)** procedures you will perform to ensure that the sales kept by the company may be relied upon. **(4 marks)**
 - ii) Describe **THREE (3)** substantive tests you should perform to ensure that the royalties charged is accurate and complete, stating the objective of each test. **(6 marks)**
- b) The management of Zenda Plc have told you that inventory is correctly valued at the lower of cost and net realisable value. As the Auditor of Zenda Plc, you have already satisfied yourself that cost is correctly determined.

Required:

- i) Explain how to determine net realisable value. **(2 marks)**

- ii) Explain **FOUR (4)** audit procedures that you will perform to ensure that net realisable value of the inventory is at or above cost. **(8 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Aseye Ltd is in the manufacturing sector and its year-end is 30 September 2019. The final audit is nearly complete and it is proposed that the financial statements and audit report will be signed on 10 November 2019. Revenue for the year is GH¢80 million and profit before taxation is GH¢9 million. Subsequent to the year-end, a law suit was filed against Aseye Ltd. Below are the details of the law suit:

A key supplier of Aseye Ltd is suing the company for breach of contract. The lawsuit was filed on 10 October, 2019 and the sum claimed by the supplier is GH¢2 million. This has been disclosed as a contingent liability in the notes to the financial statements; however, correspondence has just been received from the supplier indicating that they are willing to settle the case for a payment by Aseye Ltd of GH¢1 million. It is likely that the company will agree to this.

Required:

- i) For the event above:
- Discuss whether the Financial Statements require amendment. **(2 marks)**
 - Describe audit procedures that should be performed to enable the Auditor draw a conclusion on the amendment. **(2 marks)**
- ii) Describe the auditor's responsibility for subsequent events occurring between:
- The year-end date and the date the auditor's report is signed. **(3 marks)**
 - The date the auditor's report is signed and the date the financial statements are issued. **(3 marks)**
- b) Aggya Owusu & Co is a well-established audit firm licensed by the Institute of Chartered Accountants, Ghana (ICAG). The firm is a member of a global association of over 250 independent legal and accounting firms in more than 100 countries.

Aggya Owusu & Co has been the External Auditor of BetGhana Ltd (BetGhana) for about four years. BetGhana has recently been awarded a provisional license by the Gaming Commission of Ghana to operate an Online Sports betting operation. The provisional license requires BetGhana to establish a unit with sufficient independence from the day-to-day management and control to enable the effective review of the business and promote a compliance environment, undertake betting-customer due diligence with respect to money laundering and terrorist financing.

Required

As the Audit Manager of Aggya Owusu & Co, write a Proposal to the Directors of BetGhana explaining:

- i) The need for an Internal Audit Unit. **(5 marks)**

- ii) **FOUR (4)** benefits of outsourcing the Internal Audit function to Aggya Owusu & Co.
(5 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Agassi Chartered Accountants (Agassi) was appointed by Sampras Company Ltd (Sampras) as External Auditors. This happens to be the first client of Agassi. The books of account for Sampras was incomplete and Agassi agreed to prepare the financial statements for the year-end 31 December, 2021.

The Accountant of Sampras doubles as the Sales Manager and so Agassi agreed to second one of its staff to assist the Accountant in Sampras. The business relationship between Agassi and Sampras has started on a good note and they intend to continue into the foreseeable future. The Managing Director of Sampras worked as a Partner of one of the Big 4 audit firms.

Required:

Identify, evaluate and address threats faced by Agassi. (10 marks)

- b) The Auditor of Pegasus Technologies, a fintech company, issued an adverse opinion on the financial statements for the year ended 31 December, 2020. This was due to the fact that management could not make available the sales ledger, cash book and other ledgers to the auditors due to a massive hack suffered by the company. Hackers used SIM cards to gain access to the company's mobile money platform, stole funds and destroyed company records. The hackers have been caught and the IT unit has fixed the loop hole that led to the hacking.

Required:

Comment on the Auditor's issue of an adverse opinion and suggest whether another opinion would be more appropriate under *ISA 705 (revised): Modifications to the Opinion in the Independent Auditor's Report*.

(10 marks)

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

- a) The objective of an audit is classified as primary objective and secondary objectives.

Primary Objective

- To express an independent opinion on the financial statement.

Secondary Objectives

- To fulfil legal requirement.
- To add credibility to the financial statement.
- To confirm the accuracy of figures schedules, notes that form part of the financial statements.
- To prevent and detect fraud and errors.

(5 marks)

- b) Five factors to consider in determining extent of reliance that can be placed on the result of analytical review procedures may include:

- The degree to which Information can be disaggregated – In case of diversified enterprises, analytical review is more effectively applied to financial statements from Individual business segments rather than the entity as a whole.
- The relevance of the Financial Information.
- The comparability of Information.
- The Auditors knowledge of the business.
- The use of the analytical review by the clients itself
- For comparison purposes, the Information must be calculated in a consistent basis.
- The two figures or Information must be logically related.
- The usefulness depends on quality of the Information.

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

- c) Benefits of planning in accordance with ISA 300 includes:

- It helps the auditor to devote appropriate attention to important areas of the audit.
- It helps the auditor to Identify and resolve problems.
- It helps the auditor organize and manage the audit engagement so that it is performed in an effective manner.
- It also helps in the selection of staff with appropriate experience and proper assignment of work to them.
- Allowing for the direction and supervision of staff and review of their work.

(5 marks)

- d) Evidence from the Expert Opinion:

- Valuation of fixed assets including freehold and leasehold property, plant and machinery works of art and antiques.
- The measurement of work done on long term contracts.
- Geological determination of mineral resources.

- The legal interpretation of agreements, statutes or regulations.
 - Legal opinion on the outcome of disputes and litigation.
 - Actuarial evaluation of insurance and pension funds.
- (Any 5 points @ 1 mark each = 5 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

Performance by the candidates was satisfactory, especially question 1a) and c). Question 1b) however, was not well answered by candidates because, most candidates deviated and could not state the factors to consider in determining the extent of reliance that can be placed on the results of analytical review procedures.

QUESTION TWO

a)

i) Rights of an Auditor

- Access to records and vouchers
- Explanation of an information
- All general meetings of the company
- Receive notice and other information which concerns him as auditor
- He has the right to be heard at the meeting or part of the meeting which concerns him
- May apply to the court for direction in relation to a matter with his performance of function under the act
- Rights in relation to his removal from office

(Any 4 points @ 1.5 marks each = 6 marks)

ii) Action to taken when a right is denied

- Report to senior officials about non provision of records\information
- Express opinion in audit report about limitation in scope
- Resign appointment for non- payment of substantial fees \non-compliant
- Apply to the court for direction when in doubt.

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

b)

i) The object of ICAG is essentially to produce professional accountants of the highest quality, ready to provide cutting edge services to their clients at all times and upholding the ethics of the accountancy profession.

Offering Professional Qualifications and Training

This it does by:

- Ensuring that audits are performed only by 'fit and proper persons' who act with professional integrity. This is done by offering high standard examinations.
- It requires that the members carry out their audit work in accordance with appropriate technical standards. Standards are therefore set for their members.
- It ensures that auditors remain technically competent and up to date with modern practice by offering training and continuous education programmes.
- It maintains a list for members.

Self-regulation

- The institute does this by investigating complaints about members and sanctioning them.

(Any 4 points @ 1 mark each = 4 marks)

ii) DISCUSSION OF THE DUAL ROLE

The self-regulation aspect is what has given room for debate about the functions of the institute. It is the belief of some people that the institute cannot effectively sanction its member and that that function be given to a neutral body.

In most jurisdictions the governments appoint a body to deal with complaints against professional bodies and monitor their members. It is thought the professional bodies cannot discipline their members appropriately, more so that the accountancy profession is a small group of members who are known to each other.

It is therefore thought that the dual role assumed by ICAG is inappropriate and therefore the self - regulating function should be de-coupled and assigned to an independent body.

Some are of the view that if professional bodies can really hold up to their ethical standards, their ethical committees can and will be able to give appropriate sanctions to their members without fear or favour. If this can be done, there will be the need for appropriate structures to be established including sufficient funding.

(6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2(a) was well answered by most candidates because the question is practical and popular. Question 2b) even though quite a new question was equally answered well by most candidates. A few candidates approached question 2 bii) with the benefits that dual role of ICAG provides, this was scored.

QUESTION THREE

a)

i) Appropriate procedures would include:

- Reconcile the sales statistics to the recorded sales in the accounting records.
- Compare trends this year to those of prior years to ensure they are reasonable.
- In this connection consider any changes in client circumstances and exercise professional skepticism as these statistics are produced internally.
- Discuss with management the analyses they have made and the actions they have taken as a result of the statistical information available to them. They would probably use them, for example, in deciding whether reprints of books are necessary.
- On a test basis check that the customer codes on the customer master file are properly entered to ensure that the type of customer is properly identified.
- Review reports from sales staff to ensure that information on college take-up of books is accurate.

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

ii) Appropriate substantive tests to satisfy the auditor that the royalties charge is accurate and complete include:

Test	Objective
Compare the royalties charge with stated sales income and obtain explanations from management if the figures	To satisfy the auditor that the royalties charge in the income statement is reasonable in relation to stated sales income
Compare budgeted royalties figure with actual figures. If variations are significant, obtain explanations from management.	To satisfy the auditor that the actual figures had been anticipated by management, thus providing evidence as to their reliability.
Review the sales statistics (proven in (b) above) to ascertain those dispatches that attract royalties.	This would be evidence that the royalties charge was soundly based.
Take a sample of recorded sales entries and check: <ul style="list-style-type: none"> • whether royalties are due in respect of the customer. • if they are, that the entry in the computerised royalties file has been calculated at 10% according to the contracts agreed with the published poets. 	These are detailed tests to prove that royalties were due on dispatches and that the calculation of the royalty was accurate.
Take a sample of royalty payments and agree to supporting dispatch and sales documentation, checking in particular that all dispatches are to individuals and organisations attracting royalties.	This is a test to prove that recorded royalty payments have resulted from dispatches and sales attracting royalties.

Select sales for 15 days before the year end and days afterwards and compare with the dates of dispatch notes.	This is to check that cut-off is accurate. The royalties 15 charge should only include royalties on sales up to the cut-off date.
Calculate the expected level of royalty payments based monthly trend information for type of customer. Obtain sales figures and multiply by 10%. Compare expectation to actual royalties and obtain explanations from management for any significant variations.	This test should provide the auditor with evidence as to on the completeness and accuracy of royalties paid.

(Any 3 points @ 2 marks each = 6 marks)

b)

i) Net realizable value is defined in *IAS 2: Inventories* as “the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to the sale”. **(2 marks)**

iii) Audit procedures one would perform to ensure that net realizable value of inventory is at or above cost:

1. Assessment of estimated proceeds from the sale of items of inventory. Sales price in the period following the year-end is one important element of net realisable value. Procedures to determine sales prices include:

- Obtain actual sales prices by reference to invoices issued after the year-end and determine that the sales were genuine by vouching sales invoices to orders, dispatch notes and subsequent receipt of cash.
- If actual sales prices are not available, the auditor should obtain estimated sales prices from management. It would be necessary to assess how reasonable these estimated prices were. The auditor might be aided in this respect by reviewing the reports from sales staff backed up by discussions with management.
- Particular attention should be paid to sales prices of books identified as slow-moving. Slow- moving books might be identified by obtaining lists of sales made in the preceding (say) six months and reviewing reports from sales staff. The sales statistics would also be useful in this respect.)
- For damaged books disposal price may be nil or very low and the auditor should examine records of disposal of such books in the past. Damaged books should have been identified during the inventory count.)

2. Determine estimated costs to completion. These costs represent another important element of net realisable value.

Relevant procedures include:

- Some books may still be in production and will initially be included in inventory at cost to date; for example, they may have been printed but not bound. The auditor should examine production budgets and actual costs (for binding, for example) to

- determine actual costs to completion. It is not uncommon for publishers to print books but leave them unbound until sales in the immediate future are expected.)
- Books returned may incur extra costs before they can be made ready for resale and the auditor should examine cost records to obtain a reasonable estimate of such costs.
3. Determine costs to be incurred in marketing, selling and distributing directly related to the items in question.
 - In general terms the auditor may determine the percentage relationship between sales and selling and distribution expenses.
 - However, the distribution costs of heavy books are likely to be higher than for (say) light paperback books and the auditor should assess whether the cost weighting is reasonable.
 4. All of the above matters should be discussed with management bearing in mind that, although they represent an internal source of evidence, they are the most informed people regarding the saleability of books on hand and regarding determination of the various elements of net realisable value.
 5. Discuss with management the need for an inventory provision for slow moving and/or obsolete books.

(Any 4 points @ 2 marks each = 8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Few candidates scored good marks for this question, and many could not answer this question well because there was a mixed up of the substantive testing and procedures. Question 3 bi) had a very low performance because most candidates got confused with the determination of net realisation value for inventories. This was mixed with NRV for PPE's. Question 3bii) was poorly answered by most candidates because, they could not bring out the appropriate substantive tests and their objectives to satisfy the auditor that the royalties charge is accurate and complete.

QUESTION FOUR

a)

i) Lawsuit

- A key supplier is suing Aseye Ltd for GH¢2 million; the company has made contingent liability disclosures. However, subsequent to the year end the supplier agreed to settle at GH¢ 1 million and it is likely the company will agree. Although the settlement was agreed after the year end, it provides further evidence that the company had a present obligation as at 30 September. The financial statements should be adjusted with the contingent liability disclosures being removed and instead a provision of GH¢ 1 million should be made.

(2 marks)

- The following audit procedures should be applied to form a conclusion as to the level of the adjustment:
 - ✓ The auditor should contact the company's lawyers to ask their view as to whether the settlement is probable and whether GH¢ 1 million is the likely amount.
 - ✓ Review the correspondence with the supplier to confirm that the amount they are willing to accept is in fact GH¢ 1 million.
 - ✓ Discuss with management whether it is probable that they will pay this sum and obtain a written representation confirming this.
 - ✓ The sum being claimed is GH¢2 million but the probable payment is GH¢ 1 million, this is material as it represents 11% of profit (1/9) and hence management should provide for this amount.
 - ✓ If management refuse to provide for contingent liability, then the audit report will need to be modified. As management has not complied with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the error is material but not pervasive then a qualified opinion would be necessary.
 - ✓ A basis for qualified opinion paragraph would be required and would need to include a paragraph explaining the material misstatement in relation to the lack of a provision and the effect on the financial statements. The opinion paragraph would be qualified 'except for'.

(Any 2 points @ 1 mark each = 2 marks)

ii) ISA 560 Subsequent Events responsibilities

- **Period between the year-end date and the date the auditor's report is signed**
The auditor has an active duty to design and perform audit procedures to obtain sufficient and appropriate evidence of all events up to date of the auditor's report that require adjustment or disclosure in the financial statements are identified and are suitably reported in the financial statements

These procedures should be performed as close as possible to the date of the auditor's report and in addition representation regarding subsequent events should be sought on the date the report was signed. The auditor should ensure that management have accounted or disclosed subsequent events properly if not the implication on the audit report.

If there are material subsequent events requiring adjustment or disclosure are done, the auditor may issue unqualified opinion. However, if there are material subsequent events requiring adjustment or disclosure are not done, the auditor may issue qualified opinion.

(3 marks)

- **After the auditor's report is signed and the date the financial statements are issued**

Even after the date on which the audit report is signed, the auditor retains some degree of responsibility for events of which he becomes aware, up to the time that the financial statements are issued. He is not required, during this period, to actively look for subsequent events. His level of responsibility is therefore much reduced compared with the period before the signing of the audit report.

Therefore, the auditor does not have any responsibility to perform audit procedures or make any enquiry regarding the financial statements or subsequent events after the date of the auditor's report. In this period, it is the responsibility of management to inform the auditor of facts which may affect the financial statements.

If the auditor becomes aware of a fact that, had it been known to him at the date of the report, may have caused him to amend his report then he must:

- ✓ discuss the matter with management,
- ✓ determine whether the financial statements need amending, and
- ✓ inquire how management intend to address the matter in the financial statements.

If the financial statements are amended, the auditor is required to:

- ✓ carry out the necessary audit procedures on the amendment(s), and
- ✓ extend his review of subsequent events up to the date of the new audit report.

(3 marks)

b)

i) Proposal to the Directors of BetGhana

Aggya Owusu & Co. is pleased to present this proposal to the directors of BetGhana.

Detailed below are the benefits of an internal audit department to your company:

- An internal audit department could look at existing procedures and systems in operation at BetGhana and make lots of useful recommendations to tighten up areas where there are deficiencies in controls.
- An internal audit department could carry out value for money audits, looking at the economy, efficiency and effectiveness of processes and activities within the entity.

- The internal auditors could examine the IT systems in place and make recommendations regarding these, including looking at the programmed controls.
- The internal auditors could undertake financial audits to substantiate information in management and financial reporting.
- The internal audit department could make recommendations in respect of good corporate governance, even though the company may not be required to comply with corporate governance guidelines.
- The external auditors might be able to rely on work undertaken by the company's internal auditors and this in turn could result in a reduced audit fee.
- BetGhana has to comply with gaming commission regulations so an internal audit department could undertake work to ensure that it is complying with all required legislation and regulations.

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

ii) The benefits of outsourcing the internal audit are as follows:

- **Skills and experience:** We have available a large pool of staff with specialist skills available to provide the internal audit service to BetGhana. We have the experience of the gaming and betting industry in Ghana. We will also put measures in place to ensure that our internal audit staff are completely independent from those providing external services.
- **Flexibility:** If the internal audit department is outsourced, BetGhana will have total flexibility in its internal audit service. Staff can be requested from Aggya Owusu & Co to suit the company's workloads and requirements. This will ensure that, when required, extra staff is readily available for as long or short a period as needed. BetGhana will not be required to spend money in recruiting staff for the internal audit unit.
- **Cost control and management:** Outsourcing can be an efficient means to control the costs of internal audit as any associated costs such as training will be eliminated. In addition, the costs for the internal audit service will be agreed in advance. This will ensure that BetGhana can budget and manage its costs accordingly.

(4 points @ 1 mark each = 4 marks)

Thank you for giving an opportunity to present our proposal and we look forward to serving you better.

(Total= 20 marks)

EXAMINER'S COMMENTS

Question 4a) was averagely answered by candidates as many had a mixed understanding of question 4a) because they were not able to appreciate the ingredients of the subsequent events and therefore could not demonstrate the auditor's responsibility for the events.

The performance for question 4b) was very good because many candidates were able to explain the need for an Internal Audit function and the benefits of outsourcing the Internal Audit function. This question was popular among candidates and therefore a high scoring one.

QUESTION FIVE

a) Threats faced by Agassi

- **Self-interest threat:** Being the first client and thus the only source of income Agassi may be unwilling to upset that client by issuing an unfavourable auditor's report. Agassi should see this as a serious threat and work hard to get more clients to mitigate the self-interest threat.
- **Self-review threat:** Agassi performs accountancy work for Sampras in addition to the audit because of the work load of the Accountant. Agassi finds itself in a situation where they review their own work and may therefore not be as critical as when reviewing someone else's work. Agassi should either withdraw their staff or assign the task to an independent accountancy services firm.
- **Advocacy threat:** There is no advocacy threat in this scenario.
- **Familiarity threat:** Agassi and Sampras intend to pursue this business relationship into the foreseeable future and this might generate a less critical approach to the client's reporting practices. Agassi should apply the auditor rotation rule in the companies act, 2019, act 992.
- **Intimidation threat:** The Managing Director of Sampras worked as a partner of one of the big 4 and so with his vast experience, he might intimidate the audit staff on this schedule. Very experience audit staff should be assigned this audit work.

(10 marks)

b) Adverse opinion is issued where there is a misstatement in the financial statement, the effect of which is both material and pervasive. Issues such as:

- Inappropriate accounting policies.
- Regarding fact or amount
- Compliance with legislation or other requirements.

If the auditor obtains sufficient appropriate audit evidence and concludes that the above issues to be both material and pervasive to the financial statements, then the auditor can express an adverse opinion.

In the case of Pegasus Technologies, the auditor is unable to obtain sufficient and appropriate audit evidence, the effect of which is both material and pervasive. The unavailability of the Revenue, Cash book and General Ledger due to the company suffering a massive hack will have an impact so great that it renders the financial statement as a whole meaningless.

The Auditor should have issued a disclaimer of opinion as he is unable to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

The issues at stake leads to a limitation of scope of the Auditors work due to events beyond the control of the entity (Accounting records have been destroyed by Hackers). Adverse opinion is therefore not appropriate in these circumstances under ISA 705 (revised).

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The candidate's performance on question 5a) was satisfactory as most candidates were able to identify, evaluate and address threats to auditor's independence as presented by the facts in the case. Question 5b) however, was poorly answered by candidates as many could not relate the fact to support a Disclaimer by the auditor instead of an adverse opinion.

CONCLUSION

Some candidates showed excellent performance, as some candidates scored 80% and above in this paper. The under-listed points can be used to strengthen the examination;

- Tuition providers should guide candidates to appreciate the finalisation and reporting of auditing because candidates for two consecutive diets have not been able to answer satisfactorily questions on Modifications to the opinion in the Independent Auditor's Report.
- More and intensified teaching and learning by Tuition Providers and candidates should be continued.
- A lot of mock tasks should be conducted prior to the examinations so that candidates will be exposed to the approach of ICAG's professional examination questions for improved performance.
- Candidates must be encouraged to make good use of their study text as well as previous examinations questions so that performance in subsequent examinations will continue to improve.
- Candidates must be encouraged by Tuition Providers to improve on their English language writing skills so that they can express their thoughts well on paper in future examinations.