

**AUGUST 2022 PROFESSIONAL EXAMINATION  
ADVANCED AUDIT AND ASSURANCE (PAPER 3.2)  
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

**STANDARD OF THE PAPER**

The standard of the paper was good. It compares favourably with those of previous sittings. There were no ambiguities, typographical or other errors in the paper. The marks allocation was fair and marks were allocated to each sub-question.

The verbs used in setting the questions include, discuss, analyse, identify, explain, recommend, describe, assess and evaluate. These clearly indicated the requirements of the questions.

The paper covered all sections of the syllabus. All the questions were within the scope and subject weighting of the syllabus.

**PERFORMANCE OF CANDIDATES**

The general performance was encouraging but could have been better. Some candidates recorded the page numbers in the space provided for question numbers. In certain cases, it appeared that candidates did not take their time to understand the requirements of the question, resulting in candidates providing answers to certain questions that completely deviated from the requirement.

There was no sign of copy work as no two answers appeared the same. Some candidates did not take their time to write, making reading difficult for markers.

The performance of candidates this diet was 43.25 % while that of the April 2022 diet was 40.07%. Answers provided represented the efforts of the individual candidates.

## QUESTION ONE

- a) The potential liability of auditors has become an important topic in recent years, due to the growing complexity of the audit business environment and an increase in legal actions against auditors. One argument put forward to explain the high number of legal actions against auditors is the “expectation gap”.

**Required:**

- i) Explain the *Audit Expectation Gap* and the elements in the Gap. (4 marks)  
ii) Recommend **TWO (2)** ways of closing the audit expectation gap. (2 marks)

- b) *International Standards on Auditing (ISA)* defines professional scepticism as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatements due to error or fraud and a critical assessment of audit evidence. It explicitly requires auditors to plan and perform an audit with professional scepticism recognising that circumstances may exist that may cause financial statements to be misstated.

**Required:**

Recommend **FOUR (4)** approaches or ways that the professional practice firms and auditors could adopt to create the awareness of the importance of professional scepticism and its application. (4 marks)

- c) Opelee Partners, a firm of Chartered Accountants is considering the acceptance of a new client, The Monkoo Group Plc (The Group).

The Group is a listed company, and it has a total of 14 subsidiaries, 10 of which are foreign subsidiaries. The Group is a food processing company and each of its foreign subsidiaries provides a particular ingredient used in the Group’s main processing plant, which is based in Ghana. The subsidiaries produce raw ingredients including corn, wheat, vegetables and nuts.

If Opelee Partners decides to accept the appointment, it will perform the audit of the Group’s consolidated financial statements, and that of the financial statements of some of the individual subsidiaries. The Group audit committee has suggested that, in order to keep the audit fee as low as possible, Opelee Partners could audit the companies based in Ghana but the foreign subsidiaries would be audited by local firms. These foreign subsidiaries contribute 60% to the Group’s total assets.

As the Managing Partner of Opelee Partners, you have also obtained the following information from an internet search regarding the Group:

**Local protestors**

One subsidiary, Konti Plc, has been accused of environmental damage, due to its operations impacting on the rainforest and causing harm to wildlife. There have been some protests by concerned citizens in the country where Konti Plc is located. Digital recordings of these protests have spread world-wide on social media.

**Expansion of operations**

The Group has recently expanded its operations in a certain country by acquiring a large area of land on which to grow wheat. To receive government approval for the acquisition,

a significant ‘incentive payment’ was made to a government minister. This has been reported widely in the media.

**Required:**

Evaluate the matters Opelee Partners should consider before accepting the audit of The Group under the following areas:

- i) The audit firm’s capabilities (4 marks)
- ii) Ethical issues (4 marks)
- iii) Client integrity (2 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- a) Pato Plc offers internet streaming services for films and TV programmes and subscription service. You are the recently appointed Senior Manager of Tinka Partners responsible for the audit of Pato Plc. You are planning the audit as required by *ISA 300: Planning an audit of financial statement* and have come across these two issues following a discussion between the audit engagement partner and a representative of the client’s management:

**Legal case**

In January 2022, a legal case was initiated against the Pato Plc by Filmco Plc, a film production company. Filmco Plc claims that Pato Plc has infringed on its copyright by streaming a film in specific countries for which a licence has not been acquired. Pato Plc insists that the film is covered by a general licence which was acquired several years ago. Pato Plc’s Finance Director is not willing to recognise the legal claim within the financial statements as he is confident that the claim against the company will not be successful, and he does not want to discuss it further with the audit team, emphasising that there is no relevant documentation available for evaluation at this time. (7 marks)

**Annual incentive scheme**

For several years, Pato Plc has operated an annual incentive scheme for staff, under the terms of which employees are eligible to receive an annual incentive payment linked to the achievement of selected targets. The scheme operates for all employees, with some employees’ targets linked to profitability, while others are aligned to non-financial measures including customer satisfaction, customer loyalty and customer complaints among others. Participants on the scheme are entitled to earn a maximum annual incentive payment of 5% of their salary. Approximately 6,590 employees, including the senior executive directors, are entitled to participate in the annual incentive scheme. Last year the average bonus payment was GH¢1,250 per participant. (7 marks)

**Required:**

Evaluate the principal audit risk(s) in planning the audit of Pato Plc.

- b) The Management of Pato Plc has decided not to provide the audit firm with the written representation for the legal case as they feel that it is unnecessary. The potential provision for the legal case is 6% of profit before tax.

**Required:**

As the Auditors of Pato Plc, discuss the steps you should take and the impact on the audit report in relation to the refusal to provide the written representation. **(6 marks)**

**(Total: 20 marks)**

**QUESTION THREE**

You are the Senior Manager of Posterity Chartered Accountants. Security-Watch Ltd is an audit client of your firm and the audit for the financial year ended 31 December 2021 is at the completion stage. The company installs and maintains security systems for businesses and residential customers.

Materiality for the audit of the company's financial statements has been determined to be GH¢600,000. You are reviewing the audit working papers, and have gathered the following information:

**Fraud**

The Company's Finance Director has informed the audit team that during the year, a fraud was suspected to have been committed by a Finance Officer, Ama Fofie, in the procurement department of the company. The Finance Officer is alleged to have raised fictitious supplier invoices and paid the invoiced amounts into her personal bank account. When questioned by the company's Finance Director, Ama Fofie is alleged to have confessed that she had stolen GH¢50,000 from the company. The Finance Director asked the audit team not to perform any procedures in relation to the alleged fraudulent act, as the amount is immaterial. The Finance Director also stated that the financial statements would not be adjusted in relation to the fraud.

The only audit evidence on file is a written representation from management acknowledging the existence of the fraud, and a list of the fictitious invoices which is alleged to have been raised by Ama Fofie, provided by the Finance Director. The audit working papers conclude that the fraud is immaterial and that no further work is needed.

**Development costs**

In July 2021, the company commenced the development of a new security system, and incurred expenditure of GH¢1,000,000 up to the financial year end, which has been capitalised as an intangible non-current asset. The only audit evidence obtained in relation to this balance is as follows:

- Attachment of a sample of the costs included in the GH¢1,000,000 capitalised to supporting documentation such as supplier invoices.
- Cash flow projection for the project, which indicates that a positive cash flow will be generated by 2022. The projection has been arithmetically checked.
- A written representation from management stating that 'management considers that the development of this new product will be successful'.

You are aware that when the Finance Director was asked about the cash flow projection which he had prepared, he was reluctant to answer questions, simply saying that 'the assumptions underlying the projection have been agreed to be assumptions contained in the company's business plan'. He provided a spreadsheet showing the projection but the

underlying information could not be accessed as the file was password protected and the Finance Director would not provide the password to the audit team.

**Required:**

- a) Discuss the implications of the fraud for the completion of the audit, and the actions to be taken by Posterity Chartered Accountants. **(6 marks)**
- b) In respect of the development costs:
- i) Comment on the sufficiency and appropriateness of the audit evidence obtained. **(10 marks)**
- ii) Recommend **TWO (2)** ways Posterity Chartered Accountants could obtain further evidence about the new security system. **(4 marks)**

**(Total: 20 marks)**

#### **QUESTION FOUR**

- a) For effective and efficient audit in the public sector, auditors will need to consider the mix of competencies of the engagement team, ensuring that personnel assigned to the engagement collectively can perform the assignment to a required standard so as to achieve audit quality.

**Required:**

As the Director of Audit (Ghana Audit Service):

- i) Indicate **FIVE (5)** factors you will consider in terms of competence of personnel to ensure quality control in public sector audit. **(5 marks)**
- ii) State **FIVE (5)** matters you will consider in directing the engagement team to ensure quality control in the public sector audit. **(5 marks)**
- b) Afrobarometer is a Pan-African, non-partisan survey project that conducts public attitude surveys on democracy, governance, economic conditions, civil society and other topics in most African countries. Afrobarometer in one of its reports gave the following information about Ghana:

**Statistics**

- **35%** of Ghanaians say the country is “going in the right direction.
- **53%** of Ghanaians say the level of corruption in the country has risen in recent years.
- **59%** of Ghanaians cite infrastructure/roads among the first three problems they want government to address.

The above figures come from sampling of public opinion. However, the actual performance of government through its MMDAs and MDAs can be known through Performance Audit, Compliance Audit, Financial Audit, among others performed by the Auditor General.

**Required:**

- i) Explain Performance Audit. **(2 marks)**
- ii) How do you audit the above statistics by afrobarometer? **(8 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

- a) To address the protracted gaps and promote robust corporate governance practices in the rural banking sector, the Bank of Ghana issued Corporate Governance Directives for Rural and Community Banks in May 2021.

**Required:**

State **EIGHT (8)** of the requirements of the corporate governance directives aimed at improving Corporate Governance in the rural banking sector. **(10 marks)**

- b) Computer-Assisted Audit Techniques (CAATs) is a growing field within the IT audit profession. CAATs is the practice of using computers to automate the IT audit processes.

**Required:**

Explain **THREE (3)** relevance of CAATs in evaluating audit evidence. **(5 marks)**

- c) If indications are identified which suggest that the going concern basis might not be appropriate for preparing financial statements, the auditor is required by **ISA 570 (Revised): Going Concern** to consider the implications for his audit report. The form of the report will depend on the auditor's judgement.

There are two possible views:

- 1) The use of the going concern is appropriate but material uncertainty exist or
- 2) The use of the going concern assumption is inappropriate.

**Required:**

- i) Discuss **THREE (3)** reasons why management of a client's company will probably be reluctant to include the disclosure about material uncertainty in relation to the going concern assumption. **(3 marks)**
- ii) State the auditor's responsibility where the use of the going concern assumption is inappropriate. **(2 marks)**

**(Total: 20 marks)**

## SOLUTION TO QUESTIONS

### QUESTION ONE

a)

i) Audit expectations gap

The expectations gap is the difference (or 'gap') between:

What the users of financial statements and other members of the public think that the auditors should do and what the auditors are actually required by the law and the profession to do.

There are three main elements in the expectations gap:

**A standards Gap:** This occurs because of a perception that auditing standards are more prescriptive than they actually are, and that auditors have wide-ranging rules that they must follow.

**A performance Gap:** This occurs because of a perception that audit work has fallen below the required standards

**A liability Gap:** This arises from a lack of understanding about the auditor's liability and who the auditor may be liable to.

(4 marks)

ii) **Closing the expectation gap**

To reduce the frequency and cost of legal action, and to maintain the image of the audit profession in the mind of the public, it is in the interests of the profession to take steps to close the expectation gap. A number of strategies exist that could assist in closing the expectation gap and are discussed below:

- The profession should attempt to improve the general level of knowledge and understanding about the audit process. One such attempt has been made with updates to the auditing standards on auditor's reports published by IFAC in 2015. These updates enhanced the auditor's report to make it more relevant and transparent to users, for example, by introducing a new section on key audit matters, more requirements with regards to reporting going concern and improved descriptions of the responsibilities of the auditor.
- Controls over the auditing profession are important in enhancing public confidence. For example:
- Significant guidance for auditors and management aimed at increasing quality and addressing issues such as going concern has been issued by standard setters, professional bodies and regulators. There has been an increased focus on corporate governance and the role that audit committees play in companies, reducing inconsistencies and enhancing quality.
- Open and candid communication between internal and external auditors, financial management and the audit committee is increasingly being seen as critical in helping reduce the expectation gap. Such communication helps the audit committee to perform their governance role with the necessary transparency and realistic expectations that will help achieve effective risk management.

- Enhanced communication between the parties and confirmation of their respective roles and responsibilities should be presented in the audit committee and directors' reports to the shareholders. This will ensure that users become much more aware of the various parties' roles and responsibilities beyond the understanding they gain just from the audit report.
- The expectation gap will hopefully narrow further as financial reporting participants work together even more effectively to improve the deterrence and detection of financial reporting fraud.

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

b) Professional scepticism within the engagement team is also influenced both by the actions of the firm's leadership and the engagement partner, and by the culture and business environment of the firm. The ISAs and ISQC 1 include requirements and guidance designed to help create an environment at a both the firm and engagement levels in which the auditor can cultivate appropriate professional scepticism. For instance:

- Auditors must consider the integrity of the principal owners and management during engagement acceptance.
- The auditor must consider the reasonableness of significant assumptions used by management for accounting estimates giving rise to significant risks.
- ISA 240 (relating to fraud) notes that the auditor must maintain an ongoing questioning mind and be alert to the possibility of fraud.
- When considering going concern, the auditor must consider the reasonableness of assumptions and whether management's plans are feasible in the circumstances.
- Another area where professional scepticism is particularly important is in relation to auditing significant unusual or highly complex transactions (ISA 330).
- The auditor is required to document how they have applied professional scepticism.

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

c) **Client acceptance decision – the Monkoo Group PLC**

i) **The Audit firm's capabilities**

- In deciding whether to accept the Monkoo Group PLC (the Group) as a client, Opelee Partners should consider several matters in accordance with ISQC 1, including their competence to perform the audit, capabilities and resources, ethical matters and client integrity.
- Opelee Partners should only accept the Group as a client if the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so. There are two issues to consider here. First, the Group is a large, multinational organisation with listed status and with many subsidiaries. Although the majority of the subsidiaries would be audited by other firms, this is still a sizeable audit spanning many countries and requiring extensive liaison with component auditors, all of which will be demanding on the audit firm's resources. Opelee Partners should only accept the audit appointment if it has enough suitably skilled staff available to resource the audit without disrupting the service provided to existing clients. It is worth mentioning at this point that the Group audit



committee wants the audit fee 'as low as possible' indicating that there may be pressure on the audit firm to use a smaller audit team than they would prefer, this point will be discussed further below in relation to ethics.

- Second, the activities of the Group are quite specialised, with its operations including the production of various agricultural goods and their processing. Audit staff will need to be familiar with this industry, or Opelee Partners can consider bringing in staff with the necessary experience, though this will have implications for the profitability of the audit engagement. The Group is also listed, so audit staff would need to be familiar with the reporting requirements of the listing rules in the Group's home jurisdiction.
- Opelee Partners could bring in experts to perform this work, if necessary, but this would have cost implications and there already appears to be fee pressure on the assignment.
- The financial reporting standards applied by the foreign subsidiaries may also be a problem for the Group audit team, which have no experience in reconciling subsidiaries financial statements prepared under local accounting rules to that under which the Group reports. This lack of competence could be a significant barrier to accepting the audit.

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

ii) **Ethical requirements**

- The only ethical issue apparent which may impact on whether the firm can comply with ethical requirements relates to the request from the Group audit committee to keep the audit fee as a low as possible. This could be seen as an intimidation threat to auditor objectivity. The Code defines the intimidation threat as where the auditor is deterred from acting objectively because of actual or perceived pressures, and pressure to maintain a low audit fee is evidence of this. A low audit fee puts pressure on the audit firm to keep costs as low as possible, for example by using less experienced auditors, or performing fewer audit procedures, both of which impact on audit quality.
- In addition to the matters discussed above, because this engagement relates to a Group audit, some specific issues should be assessed in accordance with ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.
- One of the issues which ISA 600 requires an audit firm to evaluate before accepting a new engagement relates to component auditors. Specifically, where component auditors will perform work on components of the Group, the audit firm should evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. Therefore, before making their acceptance decision, Opelee Partners should find out more about the component auditors and whether there may be any restriction on obtaining evidence from them, or any potential difficulty in dealing with them.
- In addition, ISA 600 suggests that the Group auditor should understand group management's rationale for appointing more than one auditor. This is a significant issue for this audit, as the Group audit committee has requested that component auditors are used for all foreign subsidiaries, which account for 60% of the Group's

assets. In particular, Opelee Partners should discuss with group management their reason for appointing a new Group auditor but keeping the incumbent component auditors for the audits of the subsidiaries.

- In addition, given the specialised nature of the Group's activities, Opelee Partners should evaluate the competence of the component auditors as this will have a significant impact on the quality of the audit work, on which the Group auditors will be placing some reliance.
- Opelee Partners should also obtain an understanding of the group structure, components' business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place and the complexity of the consolidation process. This will help the audit firm to assess the potential audit risk of the engagement and the skills and competencies that will be needed in the audit team.
- Finally, Opelee Partners should consider whether the group engagement team will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the components, component management, component information, and the component auditors (including relevant audit documentation sought by the group engagement team); and will be able to perform necessary work on the financial information of the components. Given the multinational spread of the Group and the fact that there may be many component auditors involved, it might be difficult to manage the communications required with management of the various subsidiaries and their audit providers.

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

**iii) Client integrity**

- ISQC 1 requires consideration of client integrity when assessing whether to take on a new audit client. The environmental damage allegedly caused by Environmental PLC could cause Opelee Partners to question the business ethics of the Group, though it is not certain that the accusations are based in fact. Even so, the audit firm may not wish to be associated with a client with a poor reputation.
- The 'incentive payment' also brings the Group's integrity into question, as it could be a bribe paid to ensure that the land acquisition could go ahead. As this situation has been reported in the media it is another reason why the audit firm may conclude that the Group's business ethics are in doubt.

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

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

For sub-question a), candidates were able to explain the audit expectation gap. However, the response on the elements was not encouraging.

The b) part was also well answered, yet some candidates concentrated their efforts on training and development of the auditors.

Sub-question c) was well answered by candidates.

## QUESTION TWO

### a) **Audit risk evaluation**

#### **Legal case**

In January 2022, a legal case was brought against the Company. From the information provided, it is not possible to determine if it is material, however, there should be appropriate consideration as to whether the court case gives rise to an obligation at the reporting date.

According to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision should be recognised as a liability if there is a present obligation as a result of past events which gives rise to a probable outflow of economic benefit which can be reliably measured. There is therefore an audit risk that if any necessary provision is not recognised, liabilities and expenses will be understated. If there is a possible obligation at the reporting date, then disclosure of the contingent liability should be made in the notes to the financial statements. There is a risk of inadequate disclosure if the Company's finance director refuses to make appropriate disclosure in the notes – this is an audit risk whether the situation gives rise to a provision or a contingent liability, as provisions also have disclosure requirements which may not be complied with.

(7 marks)

#### **Annual incentive scheme**

The amount to be recognised in respect of the annual incentive scheme could be material given that the bonus can be as much as 5% of employees' salary.

The annual incentive scheme gives rise to an inherent risk at the financial statement level. Employees whose bonus payment is linked to profitability have an incentive to maximise profit, and given that senior executives are involved with the scheme, there is a risk of management bias in the financial statements. The audit team should therefore be alert to situations where revenue could be overstated and expenses understated.

There is also an audit risk relating to the obligation for the Company to pay the bonus, which should be recognised as an accrual at the year end. There is a risk that the liability recognised is over or understated in value given the potential complexity involved in calculating the bonus payment, the calculation of which is based on a range of selected targets for different employees.

(7 marks)

### b) **Steps to take if written representation on legal case is not provided**

ISA 580 Written Representations provides guidance to the auditor in the case where 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 Goodwill PLC should discuss the matter with management to understand why they are refusing.

In addition the auditor should re-evaluate the integrity of Goodwill PLC' 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 audit report**

As the auditor is unable to obtain sufficient appropriate evidence to conclude that the legal case provision or disclosure is free from material misstatement then a modified audit opinion will be required.

The legal case 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 legal provision or disclosure, the financial statements show true and fair view.

The audit report will require an additional paragraph known as the basis for the qualification opinion 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 opinion paragraph.

**(6 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

The a) part of the question was on principal risk factors. Many of the candidates lacked the techniques in risk assessment hence the question was poorly answered. Likewise, candidates' performance in question b) was not encouraging. They developed few points which made them lose marks.

### **QUESTION THREE**

#### **a) Fraud**

If the full extent of the fraud is GH¢ 50,000, then the audit team is correct to determine that the fraud is immaterial to the financial statements. However, without performing further procedures it is not possible to reach that conclusion. There is no auditor-generated evidence to support the assertion that GH¢ 50,000 is the total amount of stolen funds. Relying solely on a conversation between the finance director and the finance officer who carried out the fraud and a list of invoices provided by the finance director is not acceptable as this evidence is not sufficiently reliable.

Indeed, the finance director could be involved with the fraud, and is attempting to deceive the auditor and minimise the suspected scale of the fraud in order to deter further procedures being carried out, or investigation or actions being taken. The auditor should approach the comments made by the finance director with an attitude of professional scepticism, especially given that he has asked the audit team not to investigate further, which raises suspicion that he may be covering up

the fact that the fraud was on a larger scale than has been made known to the auditor.

There are two courses of action for the auditor:

First, further independent investigations should be carried out in order for the auditor to obtain sufficient and appropriate evidence relating to the amount of the fraud. This is particularly important given that the finance director seems unwilling to make any adjustment to the financial statements. If the fraud is actually more financially significant, the financial statements could be materially misstated, but without further audit evidence, the auditor cannot determine whether this is the case.

Second, the auditor should consider whether reporting is necessary. ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements requires that when fraud has taken place, auditors shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. Given that the finance director alerted the auditor to the fraud, it seems likely that management and those charged with governance are already aware of the fraud. However, the auditor should consider whether a formal, written communication is needed.

In addition to reporting to management and those charged with governance, ISA 240 requires that the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. The auditor's duty to maintain the confidentiality of client information makes such reporting potentially difficult, and the auditor may wish to take legal advice before reporting externally.

Further, Anti-money laundering legislation is likely to impose a duty on Posternity Chartered Accountants to report suspected money laundering activity. Suspicions relating to fraud are likely to be required to be reported under this legislation. Therefore, Posternity Chartered Accountants should consider whether reporting the fraud on this basis is acceptable.

**(6 marks)**

**b) Audit evidence**

**i) Development costs**

Given that the development costs are material to the financial statements of Security- Watch LTD, more audit work should have been carried out to determine whether it is acceptable that all, or some, of the GH¢ 1,000,000 should have been capitalised. There is a risk that research costs, which must be expensed, have not been distinguished from development costs, which can only be capitalised when certain criteria have been met. Currently, there is not sufficient, appropriate audit evidence to conclude that the accounting treatment is appropriate, and intangible assets could be materially misstated.

Agreement of amounts to invoice provides evidence of the value of expenditure, but does not provide sufficient, appropriate evidence as to the nature of the expenditure, i.e. the procedure is not necessarily an evaluation of whether it is capital or revenue expenditure.

Performing an arithmetic check on a spreadsheet does provide some evidence over the accuracy of the calculations but does not provide sufficient, appropriate evidence on the validity of the projections, and in particular, there is no evidence that the assumptions are sound. Given that the finance director has not allowed the audit team access to information supporting the spreadsheet and has refused to answer questions, he may have something to hide, and the audit of the projection should be approached with a high degree of professional scepticism. The assumptions may not be sound and may contradict other audit evidence.

The attitude and actions of the finance director, which indicate a lack of integrity, should be discussed with the audit committee, as the committee should be in a position to discuss the situation with him, with the objective of making all necessary information available to the audit team.

Finally, there appears to be over-reliance on a written representation from management. ISA 580 *Written Representations* states that written representations should be used to support other audit evidence and are not sufficient evidence on their own. In this situation, it appears that the representation is the only evidence which has been sought in regard to the likely success of the new product development which is inappropriate.

**(10 marks)**

- ii) Further evidence should be obtained to distinguish between research costs and development costs, and to support whether the development costs meet the recognition criteria in IAS 38 *Intangible Assets*, and to confirm whether all of the GH¢ 1,000,000 should be capitalised. Further evidence should be obtained, including:
- A discussion with the project manager to obtain their view on the likely launch date for the new product, anticipated level of demand, any problems foreseen with completion of the project.
  - A further review of a sample of the costs included in the GH¢ 1,000,000, including evaluation of whether the costs are capital or revenue in nature.
  - For the sample of costs, review purchase invoices and ensure they are in the name of the company to confirm the rights and obligations assertion of the capitalised costs.
  - Results of any market research to support the assertion that the new product will generate future economic benefit.
  - A discussion with management to identify how they have incurred development costs without carrying out any research first.
  - Assuming that the Group finance director makes the supporting documentation, including assumptions, available to the audit team, the assumptions should be

reviewed for reasonableness, with the auditor considering whether they are in line with business understanding and with other audit evidence obtained.

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

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

This was a good question but the candidates could not understand the question.

#### **QUESTION FOUR**

a)

i) When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the teams':

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures specific to Public Sector Entities.
- Having skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest.
- Having a wider scope of a public sector audit that may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with law, regulation or other authority and preventing and detecting fraud and corruption.

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

ii) Direction of the engagement team involves informing the members of the engagement team of matters such as:

- Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional skepticism.
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- The objectives of the work to be performed.
- The nature of the entity's business.
- Risk-related issues.
- Problems that may arise.

- The detailed approach to the performance of the engagement.  
Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team.

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

b)

- i) Performance audit refers to auditor giving assurance to management in relation to effective functioning of operational activity or an agreed component of operation, ie. service or operation that may not generate profitability. **(2 marks)**
- ii) The above information is a performance measure and an audit work on them can be referred to as Performance information audit.

In the bid to audit the statistics, the normal audit approach applies. These audit steps can be followed;

- Check from the committee or the institution that mandated the exercise, the objective of the exercise, the structures in place to ensure the accuracy of the statistics, the qualification and experience of the conductors.
- Check the committees minutes books to confirm the above and confirm the strategic objectives
- Check documentation of the planning; including the selection of places of survey, the sample size and the sampling method.
- Check through the documentation to establish the experience and qualification of the enumerators.
- Select forms of some of the interviewees from each of the three groups and check whether their responses reflect the statistics given
- Check whether the forms are filled out properly with all the necessary signatures
- Cross check the forms selected to survey summary and check their accuracy
- Check percentages of the positive respondents to the total of he the respective people interviewed to confirm the results given
- Compare the method use with known benchmark
- Check the steps taken by the authorizing committee to accept the statistics
- Write and communicate your findings on the assurance work undertaken

**(8 marks)**

**(Total: 20 marks)**

### EXAMINER'S COMMENTS

Sub-question ai) was a general question which was all about developing competence of auditors. Candidates' performance in answering this question was encouraging. For aii), the question was on directing audit engagement team in a public sector. The question was poorly answered. Candidates have not mastered this part of the syllabus.

Question bi) was well answered. The bii) question required candidates to audit the statistics of afro barometer. It was poorly answered. Questions on audit evidence, audit test and audit procedures always pose a challenges for the candidates.



## QUESTION FIVE

a) **Below are selected provisions from the directive.**

### **Disclosure of Interest by Directors**

Section 6 provides that a person, before assuming office as a Director or Key Management Person of an RCB, shall declare to the Board of that Rural and Community Banks (RCB) and the Bank of Ghana:

- (a) the professional interests of that person or the office that person holds as manager, director, trustee or by any other designation;
- (b) the investment or business interests of that person in a firm, company or RCB as a significant Shareholder, Director, Partner, Proprietor or Guarantor, with a view to prevent a conflict of interest with the duties or interests of that person as a Director or Key Management Person of the RCB; and
- (c) any material change in business interest or holding of an office when a change in  
in  
(a) and (b) above occurs.

Section 59 (3) of Act 930 requires a Director of an RCB, who has an interest in:

- a proposed credit facility to be given to a person by the RCB; or
  - a transaction that is proposed to be entered into with any other person;
- to declare the nature and the extent of that interest to the Board, whether directly or indirectly, and not take part in the deliberations and the decision of the Board with respect to that request.

### **Intervention of the Bank of Ghana in Appointments**

Section 60 of Act 930 prescribes, among others, the following:

- (a) A proposed Director elected at the Annual General Meeting (AGM) or appointed at a Board Meeting of an RCB shall not take up the office of Director on the Board unless that proposed Director has been given a prior written approval by the Bank of Ghana after it has made a determination of the fitness and propriety of the proposed Director; and
- (b) An RCB shall notify the Bank of Ghana of the changes in its Directors and Key Management Personnel as soon as the changes occur and obtain prior written approval from the Bank of Ghana before assumption of duty.

### **Board Charter**

The Board shall operate under a Board Charter which outlines the appropriate governance practices for its own work and have in place the means to ensure such practices are followed and periodically reviewed for improvement. The Board Charter shall define the authority of the Board and set out the following minimum standards:

- Overall Board responsibility;
- Code of Ethics for Directors;
- The structure of the Board, clearly articulating its composition and functional arrangements;
- Competencies/qualifications to indicate required skill set, diversity,

- knowledge and experience;
- Composition and reporting lines of Board Committees;
  - Frequency of meetings of the Board and committees, attendance to meetings and quorum required for decision making. This shall be in accordance with the provisions of the Companies Act, 2019 (Act 992);
  - Processes for the appointment, re-election, resignation and removal of Directors;
  - Tenure of office of Directors and clear succession plans;
  - Remuneration of Directors
  - Commitment to corporate governance principles required of Directors;
  - Appropriate accountability and control systems;
  - Timeline for declaration of intention to contest the position of Director; and
  - Any other matter that the Board of Directors may consider appropriate or relevant.

### **Succession Plan**

The RCB shall implement a succession plan to ensure that a framework is in place for an effective and orderly succession of Directors and Key Management Personnel.

### **Separation of Powers**

There shall be clear lines of accountability at the top hierarchy of an RCB and all RCBs shall be guided by the following:

The positions of the Board Chairperson and the Chief Executive Officer (CEO) shall be distinct and separate from each other;

The CEO shall attend all Board meetings as an ex-officio member to present management reports, take part in all discussions and shall have no voting rights;

No two (2) related persons shall occupy the positions of Board Chairperson and CEO of an RCB; and

Directors are prohibited from performing management functions and interfering with managerial duties.

### **Board Qualifications and Composition**

Directors shall possess, individually and collectively, appropriate experiences, competencies and personal qualities, including professionalism and integrity. The competencies of Directors shall be diverse and shall cover a blend of the following fields: Banking, Audit, Law, Finance, Accounting, Economics, Information Communication Technology, Entrepreneurship, Risk Management, Strategic Planning, Corporate Governance and other areas that the Bank of Ghana deems fit.

### **Board Induction**

An RCB shall establish a formal induction programme for newly appointed Directors to enable them effectively discharge their duties and responsibilities. Directors approved by the Bank of Ghana shall complete their induction programme within a month.

### **Tenure of Office of Directors**

A Director of an RCB shall hold office for a term of three (3) years and shall not hold office for more than three (3) terms.

### **Board Chairperson**

The term of office of a Board Chairperson of an RCB shall not be more than three (3) years and may be renewed for one (1) additional term only.

The Chairperson of the Board shall not have a controlling interest in an RCB and shall be ordinarily resident in Ghana. The Chairperson shall provide leadership to the Board and ensure that Board decisions are based on sound information. The Chairperson shall encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed as part of the decision making process.

### **Board Committees**

The Board shall establish specialised Board Committees, the number and nature of which shall depend on the size, complexity and risk profile of the RCB.

### **Board Evaluation**

The Board shall ensure that there is a formal and rigorous internal and external evaluation of the performance of the Board, Committees, the Chairperson and individual Directors.

The Board shall ensure that an externally facilitated evaluation of the performance of the Board, Committees, the Chairperson and individual Directors is conducted once every three (3) years by an independent third party.

### **Appointment of Key Management Personnel**

Every RCB shall submit to the Bank of Ghana, before it appoints any Key Management Person, a comprehensive report on the due diligence conducted on the proposed nominee. This submission shall be made in conjunction with the requirements under section 60 of Act 930.

### **Tenure of Office of CEO**

A CEO of an RCB shall hold office for a term of four (4) years and shall not hold office for more than three (3) terms.

### **Ethics and Professionalism**

RCBs shall establish a Code of Ethics which shall be made available to the Board, Key Management Personnel, Staff and persons to whom it applies. The Code shall be reviewed regularly where necessary and shall:

- contain among others, practices necessary to maintain confidence in the integrity of the RCB;
- commit the RCB, its Board, Key Management Personnel and Staff to the highest standards of professional behavior, business conduct and sustainable business practices;
- establish a policy to guide equity participation in the shares of the RCB by

- Directors, Key Management Personnel and Staff; and
- be signed off by Directors, Key Management Personnel and Staff on an annual basis as an indication that they understand the Code of Ethics and Sanctions for breaching the policy.

### **Corporate Governance Certification**

Directors shall undertake Corporate Governance Certification once every three (3) years which may be obtained from the National Banking College or any accredited Corporate Governance Institute in Ghana. The purpose is to assist Directors to continually update their corporate governance knowledge.

### **Cooling-off Period**

Former Key Management Personnel of an RCB shall not be eligible for appointment as Directors of that RCB until after a period of two (2) years following the end of employment with that RCB.

#### **b) Relevance of CAATs in evaluating audit evidence**

- They give auditors an ability to test the completeness and accuracy of the electronic processing itself (the computer software), rather than relying only on testing the accuracy and completeness of inputs and outputs.
- They give the auditor an ability to test a larger number of transactions in a relatively short amount of time: testing larger amounts of data reduces the overall audit risk.
- They allow the auditor to test the effectiveness of controls that are programmed into the computer software.

**(5 marks)**

c)

#### **i) Going Concern**

- Admitting that there is material uncertainty about whether the company can continue as a going concern for the next 12 months can be seen as a sign of management failure. Management would probably be reluctant to admit their responsibility for failure to the company's shareholders.
- A statement that there is material uncertainty about the ability of the company to continue in business will make the situation even worse for the company. Banks will be reluctant to lend more money and may withdraw existing lending facility. Suppliers may be reluctant to supply more goods without a credit guarantee.
- Employees will become more concerned for job security, and many might look for jobs with other employers. Staff turnover would therefore increase.

**(Any 3 points @ 1 mark each = 3 marks)**

#### **ii) where the use of the going concern is inappropriate:**

Where the financial statements have been prepared on the going concern basis but the auditor considers the going concern is inappropriate, the auditor shall express an adverse opinion. The auditor may give an unmodified opinion if the financial statement has been prepared on an alternative acceptable basis (a break-up basis)

and there is adequate disclosure of this basis. An emphasis of matter paragraph may be required in the auditor's report to highlight the alternative acceptable basis.

**(2 marks)**  
**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

This was very well answered by candidates with majority of the candidates scoring above the average mark. Very good answers were received in relation to the Corporate Governance in the rural banking sector and the relevance of CAATs in evaluating audit evidence.