

**JULY 2024 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 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 March 2024 diet, which was 59.23% score of the pass mark of 50% and more, the July 2024 diet was 42.48% score of 50% and more. This diet saw an under performance over the March 2024 session.

Questions 4(a) and 5(a) were high scoring questions because they were popular with candidates. Question 4(c), however, had a poor performance by candidates even though it is quite a straight forward question. Questions 2(a) and 5(b) were not well handled by most candidates.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Candidates had shown strengths in areas that regularly feature in the examinations and straight forward questions.

Candidates, however, showed weaknesses in the following:

- Some candidates wrote across the margins.
- Some wrote wrong question numbers for answers provided. Some did not write the questions numbers.
- Some candidates' handwriting was so bad that it took one a lot of time to make up what had been written. Some candidates did not read over their work to correct sentences to make them easy to understand.
- There were signs of inadequate preparation on the part of some candidates.
- The ability to relate answers to relevant information in the scenarios.
- The application of relevant standards to answers were inadequate.
- A good number of candidates over elaborated on answers without considering marks allotted to the question.

QUESTION ONE

- a) Professional skepticism in an audit is a necessity. It is an essential attitude that enhances the auditor's ability to identify and respond to conditions that may indicate possible misstatement. It includes a critical assessment of audit evidence. It also means being alert for audit evidence that contradicts each other.

Required:

As an Audit Senior, discuss **FIVE (5)** ways your audit firm can enhance the awareness of professional skepticism and its application to audit staff. **(10 marks)**

- b) You assigned a review engagement to your audit manager, and she has produced the report below for your authorisation and signature.

Re: Review Engagement Report for the Financial Statements of Konsa Ltd for the year ended December 31, 2023

We have reviewed the accompanying unaudited financial statements of Konsa Ltd which comprise the Statement of Financial Position as of December 31, 2023, and the related statements of income, changes in equity, and cash flows for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Konsa Ltd as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards for SMEs and in the manner required by the Companies Act, 2019 (Act 992).

March 3, 2024

Mannah and Associates, Accra.

Required:

- i) As the Engagement Partner, discuss **THREE (3)** issues that make this report unacceptable. **(6 marks)**
- ii) Redraft the conclusion if no matters have come to your attention, which indicate a true and fair view is not presented. **(4 marks)**

(Total: 20 marks)

QUESTION TWO

- a) You have recently been promoted as a senior manager of your firm responsible for the audit of Tolon Ltd. The company's financial year ended on 31 December 2022. Your firm is at the completion stage of the audit and you are required to review the work completed on the material balances and transactions below.

Expenses related to payroll

The company has a payroll function which is outsourced to Pintoa Ltd, a service organisation which processes all of Tolon Ltd's salary expenses. The payroll expenses recognised in the financial statements have been traced back to year-end reports issued by Pintoa Ltd. The audit team has had no direct contact with Pintoa Ltd as the year-end reports were sent to Tolon Ltd's finance director who then passed them to the audit team.

Tolon Ltd employs a few casual workers who are paid in cash at the end of each month and are not entered into the payroll system. The audit team has traced the cash payment back to the petty cash records and the amounts involved are considered immaterial.

(6 marks)

Assets classified as held for sale

There was a planned disposal of one of Tolon Ltd's factory sites. The property and associated assets have been classified as held for sale in the financial statements. A manual journal has been posted by the Finance Director to reclassify the assets as current assets and to adjust the value of the assets for impairment and reversal of depreciation charged from the date at which the assets met the criteria to be classified as held for sale. The Finance Director asked the audit senior to check the journal before it was posted on the basis of there being no one with the relevant knowledge to do this at Tolon Ltd.

The planned disposal was discussed with management. A brief note has been put into the audit working papers stating that in management's opinion the accounting treatment to classify the factory as held for sale is correct. The manual journal has been arithmetically checked by a different member of the audit team, and the amounts agreed back to the non-current asset register.

(6 marks)

Expenditure in relation to capital items

When auditing the company's capital expenditure, the audit team selected a material transaction to test and found that key internal controls over capital expenditure were not operating effectively. Authorisation had not been obtained for an order placed for several vehicles, and appropriate segregation of duties over initiating and processing the transaction was not maintained.

The audit team noted details of the internal control deficiencies and updated the systems notes on the permanent audit file to reflect the deficiencies. The audit work completed on this order was to agree the purchase of the vehicles to purchase invoices and to the cash book and bank statement. The rest of the audit work on capital expenditure was completed in accordance with the audit programme.

(4 marks)

Required:

Using the three issues above:

- Comment on the sufficiency and appropriateness of the audit evidence obtained.
- Recommend further audit procedures to be performed by the audit team.

- b) **ISA300: Planning an Audit of Financial Statements** sets out the stage for audit planning, focusing on crafting a roadmap that leads to effective financial statement examinations.

Required:

In relation to the above, explain the extent to which the application of **ISA 300** would assist in performing an audit in an effective manner. **(4 marks)**

(Total: 20 marks)

QUESTION THREE

You are the Senior Manager of Totobi and Associates. Adama Ltd is an audit client of your firm and the audit for the financial year ended 31 December 2022 is in the completion stage. The company is in the financial sector. The company's investment in the Government of Ghana bonds for 2022 amounted to GH¢750,000.

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:

Domestic Debt Exchange Programme

On 5 December 2022, the Government of Ghana launched Ghana's domestic debt exchange programme, an invitation for the voluntary exchange of approximately GH¢137 billion of the domestic notes and bonds of the Republic, including E.S.L.A. and Daakye Bonds, for a package of new bonds to be issued by the Republic. The programme excludes treasury bills in totality, as well as notes and bonds held by individuals (natural persons). The final version of the exchange memorandum was issued on 3 February, 2023.

As a Senior Manager, you overheard the audit associate who worked on Adama Ltd say that any event that occurs after the end of the year has no impact on the financial statements of the year under audit.

Required:

In accordance with **ISA 560: Subsequent Events**, prepare a briefing note regarding the responsibilities of the auditor under the following headings:

- i) Events occurring up to the date of the auditor's report. **(3 marks)**
- ii) Facts discovered after the date of the auditor's report but before the date the financial statements are issued. **(5 marks)**
- iii) Facts discovered after the financial statements have been issued. **(4 marks)**
- iv) Audit procedures to be performed. **(8 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) The Auditor-General has the responsibility to audit statutory corporations, state enterprises or public commercial institutions operating under their own enactment, and all public accounts established by an act of Parliament.

Required:

In relation to the statement above, discuss the obligation of the Auditor-General in the audit of a statutory corporation, a state enterprise or a public commercial institution operating under its own enactment.

(8 marks)

- b) A radio commentary on audit findings published by the Ghana Audit Service on its website generated a lot of debate with a section of the Ghanaian community holding the view that the audit findings should have gone to parliament for debate and approval before publication on the Audit Service website. The commentators averred that “prior to debating and approval by parliament, an audit report from the Auditor-General is, at best, a draft report.”

Required:

Discuss the above statement in the light of *Lima and Mexico declarations*. **(2 marks)**

- c) Compliance audit report should conform to certain principles. The forms of reporting may be defined in law or by the mandate of the Supreme Audit Institutions (SAI). Nonetheless, the audit report normally contains a conclusion based on the audit work performed. There are some reports that are structured and formalised in line with legal demands, others are by dictates of conventions.

Required:

Discuss **FOUR (4)** principles of compliance audit report. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Owners of small companies usually raise issues on the relevance of audited financial statements with several calling for a total exemption from the requirement of producing audited financial statements.

Required:

In relation to the statement above, discuss the arguments against the exemption of small companies from producing audited financial statements. **(10 marks)**

- b) You are an audit manager at Bukari & Associates responsible for the audit of Bonnye Ltd, a subsidiary of Oak Group. A different audit firm is responsible for the audit of Oak Group.

The audit of the financial statements of Bonnye Ltd for the year ended 31 July 2022 is nearing completion, but the following issues require your attention before the auditor’s

report is signed and your final communication is made to the group auditor in response to their request for information.

The draft financial statements of Bonnye Ltd recognise a loss before tax of GH¢700,000.

Bonnys Ltd has been making losses for several years and it generates insufficient cash to meet its significant debt obligations. The company relies on support from Oak Group in order to continue trading. The management of Oak Group has confirmed verbally that it will continue to support Bonnye Ltd, but has not provided a formal letter to support their statement despite a number of requests.

You are aware that Oak Group is the subject of a major lawsuit following an industrial accident which resulted in significant pollution of local agricultural land and, most seriously, loss of life. You attempted to discuss the matter with the directors of Oak Group but they refused, saying that it had already been investigated by the group auditor. The group auditor informed you that the case is ongoing and that they have obtained satisfactory representations from both management and legal advisers stating that they were confident of defending the claim successfully. When you asked for copies of the representations, the group auditor refused saying it was a matter relevant to the parent company and that it was not relevant to the audit of Bonnye Ltd.

Shortly after making your enquiries, you received a phone call from the Oak Group Engagement Partner who said that the board of Oak Group was concerned that you might modify the auditor's report of Bonnye Ltd. He also said that, as the only person with full oversight of audit matters relating to the Oak Group, he did not think that it would be necessary to modify the auditor's report of Bonnye Ltd and that he would oppose any attempt to do so. He suggested that if the debt in the financial statements of Bonnye Ltd was the reason for seeking to modify the opinion, then he would transfer it to the Group and the letter of comfort would no longer be necessary.

Required:

Comment on the ethical and professional issues raised, considering any implications for completion of the audit, in respect of:

- i) The evidence obtained in relation to the support offered by Oak Group.
- ii) The request not to modify the auditor's report of Bonnye Ltd.

(10 marks)

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

- a) Much can be done at the firm's and engagement levels to promote Professional skepticism among the audit staff.

At the firm's level, the following should prevail:

Professional skepticism within the engagement firm should be influenced both by the actions of the firm's leadership, the engagement partner, and by the culture and the business environment of the firm. ISAs and the ISQC 1 include requirements and guidance designed to help create an environment at both the firm and engagement levels in which the auditor can cultivate appropriate professional skepticism.

At the Engagement level, some of these must be considered:

- The integrity of the principal owner and management during engagement acceptance. The auditor needs to consider whether the management of the intended audit client acts with integrity and whether there is any matter that may impact on the auditor being able to act with professional skepticism if they accept the engagement
- The reasonableness of significant assumptions used by management for accounting estimates giving rise to significant risk. The auditor should question the reasonableness of significant estimate from management. Explanations given by management should not be taken on face value. Further work should be done to ascertain the reasonableness of the assertions being made.
- The auditor must maintain an ongoing questioning mind and be alert to the possibility of fraud. Reliability and sufficiency of evidence should be considered, especially where there is risk of fraud.
- On "going concern" assessment, the auditor must consider the reasonableness of the assumptions and whether management's plans are feasible in the circumstance.
- Significance and complexity of a transaction. When obtaining audit evidence, the auditor should be ready to challenge management, especially on complex and subjective matters and matters that have required a degree of judgement to be exercised by management.
- When forming the auditor's opinion, the auditor should apply professional skepticism by considering the overall sufficiency of evidence to support the audit opinion, and by evaluation whether the financial statements overall are a fair presentation of underlying transactions and events.
- The auditor should document how professional skepticism have been applied in his audit work.
- The Engagement partner should discuss the importance of professional skepticism in planning and performing audit

- The engagement partner should assess whether the engagement has been planned and performed with an attitude of professional skepticism and evaluate the implications.

The firm must create an enabling culture to facilitate the education of skepticism to staff through policies and procedures eg., training sessions, pre-audit briefing sessions, and practical demonstrations during audit interviews and reviews. Audit Partners and management can discuss the need for professional skepticism and when it can be triggered during the planning, execution and reporting of audit work.

(Any 5 points @ 2 marks each = 10 marks)

b)

i) Issues with the review report

- Appropriate Addressee missing
- Management's Responsibility for the Financial Statements missing
- Practitioner's Responsibility missing
- Conclusion in the engagement letter has been written as though is an audit instead of a review. ISRE 2400 recommends how the conclusion is to be written.
- Report on Other Legal and Regulatory Requirement

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

ii) **Revised Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respect, (or do not give a true and fair view of) the financial position of Konsa Ltd as at December 31, 2023 and (of) its financial performance and cashflows for the year then ended, in accordance with International Financial Reporting Standard for Small and Medium-sized Entities.

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Performance by the candidates was satisfactory, because the question is popular and practical. However, part (b) (i) and (ii) were not well answered by many candidates, most candidates were confused with audit report and engagement review report.

QUESTION TWO

a)

Payroll

Audit evidence obtained

The audit work in respect of the payroll needs to be much more thorough; simply agreeing the amounts to the reports issued by Pintoa Ltd provides no evidence on the completeness, accuracy or validity of the payroll figures recognised in the financial statements. The audit team seems to have relied on Pintoa Ltd's year-end reports as being accurate and the requirements of ISA 402 Audit Considerations Relating to an Entity Using a Service Organisation do not appear to have been followed.

The audit team needs to obtain assurance on the controls which Pintoa Ltd has implemented in order to assess the risk of material misstatement in the payroll figures and to respond to the risk with appropriate audit procedures.

With the permission of Tolon Ltd, the audit team should contact Pintoa Ltd with the objective of obtaining more information which can be used to assess how the payroll has been processed, and the controls which are in place.

The controls which Tolon Ltd uses to verify the information received from Pintoa Ltd also need to be understood. The controls in place at Tolon Ltd should be documented and tested.

It is recommended that further substantive procedures should be carried out to provide a wider range of evidence on the payroll expense recognised in the financial statements.

In relation to the casual employees, the fact that the amount involved is immaterial means that the audit team does not need to perform any further detailed audit procedures as there is no risk of material misstatement. However, as there is a risk over the completeness of these costs, the controls in place to ensure this process is effectively managed should be discussed with management and documented.

Further audit procedures

- Discuss and document relevant controls in place at Tolon Ltd over the information received from Pintoa Ltd and the management of casual employees, and perform tests of controls on a sample basis.
- If necessary, obtain a type 1 or type 2 report from Pintoa Ltd to obtain further assurance on the controls which the service organisation has in place.
- Review the service agreement between Tolon Ltd and Pintoa Ltd to understand the exact work which is conducted by Pintoa Ltd as a service organisation.
- Read all reports made by Pintoa Ltd during the year to identify any risks of misstatement in the payroll figure.
- The amount of unpaid taxes in respect of the casual workers should be quantified

by recalculations of the amounts due.

- Read any user manuals or systems overviews to assess the efficacy of controls in place over the processing of payroll.
- Perform test of detail by selecting a sample from the payroll records and agreeing the amounts to payslips and HR records.
- Perform a substantive analytical review on payroll, preparing an auditor's expectation of the payroll figures and comparing it to that recognised in the financial statements and discussing any variance with management.
- Agree total wages and deductions on selected payrolls to the amounts recorded in the individual general ledger accounts
- Perform analytical procedures such as proof in total by using number of employees and average wage. Investigate any significant fluctuations.
- Carry out month-by-month comparisons of total wages with prior year/budgets and investigate differences.

Report to those charged with governance

The fact that casual employees are being paid from petty cash without being put onto the company's payroll indicates that Tolon Ltd may not be complying with relevant regulations, for example, that appropriate payroll taxes are not being paid. Despite the amounts involved being immaterial, the potential non-compliance should be reported to those charged with governance, along with a recommendation that all employees, whether casual or not, should be processed through the company's payroll system. There may be implications for the financial statements if fines or penalties are imposed by the tax authorities in respect of the non-compliance.

Sufficiency & appropriateness of audit evidence obtained: 3 marks

Any 3 audit procedures: 3 marks

6 marks

Assets held for sale

Audit evidence obtained

The evidence does not appear to be sufficient to draw a conclusion on the appropriateness of classifying the property and any other related assets and liabilities as held for sale. A discussion with management regarding the accounting treatment is relevant, as the audit team will need to understand management's rationale.

However, management's explanation should not be accepted at face value and should be corroborated through further audit procedures. It is not sufficient to simply put management's justification for the accounting treatment on the audit file and conclude that it is correct. For example, the factory can only be classified as held for sale if it is available for immediate sale in its current condition, which may not be the case.

In terms of the manual journal, checking that it is arithmetically correct, while

relevant, is not sufficient evidence.

Further evidence should be obtained in order to conclude that the basis of the calculation is in accordance with *IFRS 5: Non-current Assets Held for Sale and Discontinued Operations* and there should be consideration as to whether other requirements of the standard other than those related to the reclassification and measurement of the asset have been complied with.

For example, the results specific to the factory may need to be disclosed as a discontinued operation in the statement of profit or loss and the statement of cash flows. No audit evidence appears to have been obtained in respect of these issues.

Further audit procedures

- Review board minutes to confirm that the sale of the factory has been approved and to agree the date of the approval to the board minutes and relevant staff announcements.
- Obtain correspondence with estate agents to confirm that the factory is being actively marketed.
- Use an auditor's expert to confirm the fair value of the property and agree that this figure has been used in the impairment calculation.
- Obtain confirmation, for example, by a review of production schedules, inventory movement records and payroll records, that production at the factory has stopped and thus it is available for immediate sale.
- Using management accounts, determine whether the factory is a separate major line of business in which case its results should be disclosed as a discontinued operation.

Confirm that:

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active programme to locate a buyer is initiated
- the sale is highly probable, within 12 months of classification as held for sale
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.
- The assets are not depreciated after reclassification.
- impairment is measured and recognised in accordance with the applicable IFRSs, which in this case would be IFRS 16 Property, Plant and Equipment and IAS 36 Impairment of Assets.
- There is appropriate disclosure, as assets and liabilities held for sale should be recognised separately from other assets and liabilities in the statement of financial position.

Report to those charged with governance

ISA 265 Communicating Deficiencies in Internal Controls to Those Charged with Governance and Management requires the auditor to communicate significant deficiencies in internal control to those charged with governance and management. In deciding whether a control deficiency is significant, one of the matters which should be considered is the importance of the control to the financial reporting process. Controls over the period-end financial reporting process such as controls over non-recurring journal entries can be important as they often deal with one-off material matters which are being accounted for outside the normal accounting system.

Therefore the journal posted by the finance director should be subject to some form of internal control, for example, approval by the board or the audit committee. The report to those charged with governance should recommend that controls are established over period-end journals posted to ensure their accuracy and validity.

In addition, the finance director should not be asking the audit team to check his figures; this could be perceived as a self-review threat to independence. This should potentially be flagged to the audit committee.

The fact that there is, according to the finance director, no one else at the company with relevant knowledge is concerning. The audit committee should be made aware of this and appropriate steps taken to ensure that sufficiently knowledgeable personnel are hired or appropriate training is provided to existing staff.

Sufficiency & appropriateness of audit evidence obtained: 3 marks

Any 3 audit procedures: 3 marks

6 marks

Capital expenditure

Audit work performed

The audit work has revealed that internal controls have not been operating and this should have led to more extensive testing of capital expenditure, rather than the audit programme being completed as planned. Generally, the audit team should extend audit testing on capital expenditure, for example, by extending sample testing and reducing the level of materiality applied in audit tests.

The audit team should also investigate why the controls are not operating, considering whether they are being deliberately ignored or overridden, whether time pressure or lack of resources is making the controls difficult to operate, or if there is a suspicion of collusion and possible fraud.

The procedures on the purchase of the vehicles do not appear to cover all relevant assertions, for example, there is nothing to confirm that Tolon Ltd has correctly depreciated the vehicles or that they are actually owned and being used by the

company, or even that they exist.

Further audit procedures

- Physically verify the vehicles and confirm that they are being used by employees on company business.
- Obtain the log book/vehicle registration document and other relevant ownership documents such as those issued by the vehicle licensing body, to confirm the right of Tolon Ltd to recognise the vehicles.
- Obtain the insurance documents to confirm that Tolon Ltd is paying the relevant insurance for the vehicles.
- Recalculate the depreciation which should have been charged on the vehicles and agree to the statement of profit or loss for the year.
- Trace the vehicles to the company's non-current asset register.

Report to those charged with governance

The auditor should report to those charged with governance that there appears to be a deficiency in internal controls. While the audit team's findings do not indicate that fraud is taking place, the lack of segregation of duties and the failure to obtain appropriate authorisation make it easy for assets to be misappropriated and create a significant fraud risk.

The audit firm should explain the implications of the control deficiencies to management and recommend improvements. For example, authorisation should be a pre-requisite for any order over a certain monetary amount. Tolon Ltd should also be encouraged to improve the control environment, for example, by training staff on the importance of controls and setting an appropriate tone at the top so that there is no tolerance for controls being ignored or deliberately circumvented.

Sufficiency & appropriateness of audit evidence obtained: 2 marks

**Any 2 audit procedures: 2 marks
4 marks**

- b) The auditor's work on planning is regulated primarily by ISA 300 Planning an audit of financial statements, which requires the auditor to plan the audit so that the audit work will be performed in an effective manner. An overall audit plan should be developed, detailing the expected scope of the audit and how the audit should be conducted. ISA 300 states that:
- an audit should be planned so that it is performed effectively
 - the auditor should establish an overall audit strategy, and
 - the audit plan should include measures for the direction, supervision and review of audit work.
 - Prepare an audit strategy and an audit plan

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2(a)(i) was not well answered by most candidates even though the question is practical. Many candidates could not bring out the issues that will make the audit evidence sufficient and appropriate. Question 2(a)(ii) quite a straightforward question was not well answered by most candidates. Performance for question 2(b) was very good because it is popular with many candidates.

QUESTION THREE

Briefing notes

From: Senior Manager

To: Audit Associate

Introduction

These briefing notes are to provide explanations regarding the responsibilities of an auditor on subsequent events. The responsibilities explained in these briefing notes depend on the events occurring up to the date of the auditor's report and events after the auditor's report but before the publication of the financial statements. These stages are clearly explained below.

i) **Events occurring up to date of the auditor's report**

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 and ensure that those 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.

(3 marks)

ii) **Facts discovered after the date of the auditor's report but before 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.

If management do not amend the financial statements for the subsequent event, but the auditor feels that an amendment should be made, the auditor should take the following action.

- If the audit report has not yet been provided to the entity, modify his opinion as appropriate.
- If the audit report has been provided to the entity:
- instruct management not to issue the financial statements before the necessary amendments have been made
- if they do so, take appropriate action to prevent reliance on the audit report, after taking legal advice.

The responsibilities of the auditor regarding subsequent events which should be adjusted or disclosed in the financial statements depends on the period the event occurs; i.e whether the auditor's reports are signed or after the signing of the report but before publication of the financial statements.

(5 marks)

iii) **Factors discovered after the financial statement have been issued**

As above, the auditor has no obligation to perform audit procedures or make inquiries regarding the financial statements after they have been issued. However, if he becomes aware of a fact that, **had it been known to him at the date of his audit report, may have caused him to amend his report** then he should:

- discuss the matter with management
- determine how 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
- extend his review of subsequent events up to the date of the new report (as above)
- Review the steps taken by management to inform anyone who receives the original financial statements and audit report of the situation
- Issue a new audit report, containing an emphasis of matter paragraph or other matter paragraph. This should refer to a note in the revised financial statements that explains in more details the reason for the re-issue of the financial statements.

(4 marks)

iv) **Audit procedures**

- Inquire of management as to how the programme might affect the financial statement.
- Read the final version of the exchange memorandum issued.
- Review minutes of shareholders, board and senior management meeting to understand discussions made on the programme and any approvals.
- Obtain and review a copy of the revised agreement with GoG in relation to the GH¢750,000.
- Evaluate the effect of impairment of the GH¢750,000 bond on the financial statement.
- Obtain written representation from Management with respect to the Debt exchange.

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

(Total: 20 marks)

CHIEF EXAMINER'S COMMENTS

Most candidates did not do well in parts (i), (ii) and (iii) of the question. Most candidates could not provide the responsibilities of the auditor relating to events stated in (i) to (iii) of the question. **ISA 560: Subsequent Events** is a very popular area in the syllabus, widely discussed in the students' study text but most candidates could not make a good use of the material.

QUESTION FOUR

- a) The Auditor-General is obliged to give an opinion on the financial statement of a statutory corporation and in addition draw attention to certain pertinent issues as prescribed in the law establishing the Audit Service.

Detailed below are the requirements:

- In respect of the accounts of a statutory corporation, a state enterprise or a public commercial institution operating under its own enactment, the Auditor General or any person appointed by him shall upon the examination of the accounts of the body or institution, express his opinion as to whether the accounts present fairly financial information in accordance with the applicable statutory provisions, stated accounting policies of the Government and in accordance with generally accepted accounting standards and essentially consistent with that of the preceding year.

The Auditor-General or any person appointed by the Auditor-General to audit the accounts of statutory corporations shall in addition to the audit report draw attention to the following:

- The profitability, liquidity, stability and solvency of the corporation and also the performance of the shares of the corporation on the capital markets, where relevant;
- Whether there was a delay in payment of the government portion of any declared dividend, if any, into the Consolidated Fund;
- Any significant cases of fraud or losses and the underlying causes;
- Any internal control weakness noted; and
- The general corporate performance indicating:
 - ✓ achievement against set targets and objectives; and
 - ✓ whether the finances of the body have been conducted with due regard to economy, efficiency and effectiveness having regard to the resources utilized.

(8 marks)

b) **Lima and Mexican Declarations**

The statement above borders on the independence of the Auditor-General. Subjecting his report to the approval of Parliament before finalisation will make him dependent on Parliament in respect of what he has to publish. The idea of the Lima and Mexican declaration seek to make the Auditor-General independent in audit work with respect to the choice of client, planning, conducting, reporting and publication of findings. Although sometimes mistakes are detected in the Auditor-General's report during parliamentary debate, that is a quality control issue which must be addressed by Audit Service; with adequate staffing and segregation of duties. The declarations also intended for the Auditor-General to publish his report to inform the general public without control from any authority.

(2 marks)

- c) The auditor should prepare a report based on four principles:
- **Completeness:** The auditor should consider all relevant audit evidence before issuing a report.
 - **Objectivity:** The auditor should apply professional judgement and skepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and balanced manner.
 - **Timeliness:** The report should be prepared in due time (and should not be delayed).
 - **A contradictory process:** The principle of a contradictory process implies checking the accuracy of facts with the audited entity and incorporating responses from responsible officials as appropriate.

(4 points @ 2.5 marks each = 10 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENTS

Question 4(a), many candidates did quite well here, because it is popular and practical with candidates. Most candidates exhibited a good knowledge of section (b) of the question. Unfortunately, quite a good number of the candidates could not exhibit knowledge of the principles of compliance audit, hence a poor performance of section (c).

QUESTION FIVE

a) **Arguments against exemption of small companies from producing audited financial statements**

- If the financial statements have been prepared by a part-qualified accountant, an audit provides some assurance that they provide a true and fair view and do not contain material misstatement.
- The audit is valuable, especially to user groups other than the shareholders (such as trade suppliers, tax authorities), by giving them some reassurance about the financial statements of small entities.
- Shareholders, especially minority shareholders, should be entitled to receive financial statement from the entity that have been independently audited.
- The external audit imposes a level of discipline on companies, in matters relating to accounting and internal control. The auditors can advise management on ways of improving internal control.
- The audit may identify areas where efficiency and cost savings can be made by the entity. These savings would have the effect of reducing the overall cost of the audit.
- If a small company expects to approach its bank in future to ask for loan finance the bank may demand to see audited financial statement
- The tax authorities are more likely to accept audited financial statement as valid basis for computing the company's tax liability.
- If small company expects to grow, it will become large enough at some time in future to require statutory annual audit. If there are material errors in its financial statements, the cost of its first statutory audit could be high.

(Any 5 points @ 2 marks = 10 marks)

b)

i) **Offer of support by Oak Group**

Insufficient evidence

Without the financial support of its parent company, Bonnye Ltd would not be considered a going concern. A verbal pledge of support from Oak Group would not be considered sufficient, reliable evidence in regard to this matter.

Ability to provide parental support

In addition to a letter of support, the auditor of Bonnye Ltd would need to obtain sufficient appropriate evidence that Oak Group can provide the support which they promise.

The statement by the group auditor that they have received adequate representations from the directors and legal advisers of the company does not constitute sufficient appropriate evidence. At the very least, the auditor of Bonnye Ltd would need copies of those representations. While the representations from management would suffer from the same lack of reliability, representations from the legal advisers would represent third-party evidence and, as such, be more reliable.

Uncertainty surrounding legal case

Given the uncertainty surrounding the court case and the gravity of preparing the financial statements on an incorrect basis, Bukari & Associates may seek further documentary evidence before concluding on the going concern status of the company. This could include correspondence between Oak Group and their legal advisers, minutes of board meetings, copies of Oak Group's assessments of going concern and their current statement of financial position.

Conduct of client and group auditor

The suspicious behaviour of both the directors and auditors of Oak Group suggests that they are not being entirely honest with Bukari & Associates. If their statements regarding the likely outcome of the legal case are appropriate and there are no other concerns, then there is no reason why they would not be able to provide copies of the representations and a written letter of support to the auditor of Bonnye Ltd.

This increases the need for professional due care during the audit process, particularly in relation to the re-appraisal of fraud risk and the potential for material misstatement in relation to the going concern status of the company and associated disclosures in the financial statements.

Further procedures

The auditor should communicate with those charged with governance of Bonnye Ltd and explain the requirements to obtain sufficient appropriate evidence in this matter. The auditor should also explain the consequences of not receiving this information in terms of the impact this will have on the going concern status of the company and the adjustments they would be required to make to the financial statements.

Finally, the auditor should explain that if the additional evidence is not received and the recommended adjustments are not made, then this will lead to a modification of the auditor's report. The fact that necessary audit evidence is being withheld would constitute a limitation in the scope of the audit, which may result in a qualified opinion or a disclaimer of opinion being issued.

ii) The request not to modify the auditor's report Intimidation

By trying to influence the decisions in relation to the audit of Bonnye Ltd, the group auditor is creating an intimidation threat to objectivity. IESBA's Code of Ethics for Professional Accountants defines this as the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures.

Responsibility for the opinion

As the auditor of Bonnye Ltd, the responsibility for determining the final audit opinion and wording of the auditor's report remains with Bukari & Associates. If,

based upon the evidence obtained, the engagement partner believes that a modification to the auditor's report is necessary, then they should follow this through, regardless of the opinion of the group auditor and the board of the parent company. The group partner's 'oversight' of the whole audit is irrelevant to the audit of Bonnye Ltd; as a company in its own right, it must be audited in accordance with International Standards on Auditing.

Transferring the debt to the parent

The suggestion to transfer the debts into the parent company would not resolve the problem; if the debt obligations were 'transferred' to the parent using an appropriate journal, they would be replaced by a matching liability to the parent company in the financial statements of Bonnye Ltd, and the same problem would exist and while this would be eliminated in the consolidated accounts, this does not allow the auditor of Bonnye Ltd to gather sufficient appropriate evidence in relation to the going concern status of the company.

Possible manipulation of the financial statements

It is possible that the group engagement partner is recommending some form of inappropriate accounting treatment to transfer the debt into the parent company without any matching liability in Bonnye Ltd's accounts, for example, by transferring the debts and then consequently cancelling any obligations from Bonnye Ltd due to Oak Group. This form of accounting manipulation could be used to disguise the true financial position of the group and may constitute fraud. Any suggestion to pursue this line of action should be firmly refused.

Integrity of the group auditor

The overall integrity of the group engagement partner must be questioned. His aggressive attitude towards the audit of Bonnye Ltd and his reluctance to cooperate by providing evidence in relation to the lawsuit indicate some form of inappropriate conduct in the audit of the parent company and group accounts. This matter should be discussed with the audit engagement partner and possibly with other senior partners, possibly including the firm's designated ethics partner. Further, the suggestion that 'he' would transfer the debt from Bonnye Ltd to the parent company suggests that the auditor is becoming involved in the accounting transactions included in the financial statements and may suggest that the firm's independence is compromised.

Position as auditor of Bonnye Ltd

Given the intimidation threat and the potential concerns relating to the audit of the parent and the group, Bukari & Associates may consider resignation from the audit of Bonnye Ltd, if permitted, or may not seek re-election as auditor for the following year.

(10 marks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENTS

Performance of question 5(a), was satisfactory because most candidates found it to be practical.

Question 5(b) was not well handled by many candidates, even though, most candidates were able to identify issues raised in the scenario, they were not able to apply them to the requirements of the question.

CONCLUSION

The under listed points can be used to strengthen the examination:

- Tuition providers should guide candidates to appreciate the provisions in the International Standards on Auditing.
- 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.