



PROFESSIONAL LEVEL EXAMINATION

2024-2029 Syllabus

Mock Exam

ADVANCED AUDIT & ASSURANCE

Paper 3.2

QUESTION ONE

- a) A medium-sized fast growing company owned by the Basoah Family approached Fast and Easy Accounting Firm (FFAF) and explained that they want to change their auditors to a firm that can provide a broader range of services and support than what they receive from their current Auditors. They have asked that FFAF should perform the following roles as auditors of the company if they are engaged:
- i) Supervision of the company's routine bookkeeping and payroll systems which will be outsourced to render the present bookkeeping and payroll staff redundant.
 - ii) FFAF would then employ the redundant staff and use them to perform the bookkeeping and payroll tasks.
 - iii) The company would continue to provide office space for these members of staff, but they would be employed and supervised by FFAF.
 - iv) The company will however continue to prepare financial statements. They will prepare the financial statements from the trial balance generated by the computerised bookkeeping package provided by FFAF.
 - v) The company is determined to have a good quality service, both from the bookkeeping function and from the external audit and they are ready to pay a realistic audit fee to maintain FFAF as their External Auditors.

Required:

Assuming that FFAF accepts this appointment, explain how the firm would organise its audit work to ensure that the associated self-review threat is reduced to an acceptable level.

(10 marks)

- b) You are a manager in Green & Co., a firm of Chartered Accountants, with specific responsibility for the quality of audits. Green & Co. was appointed auditor of Cleanup Co, a provider of waste management services, in July 2024. You have just visited the audit team at Cleanup's head office. The audit team comprises an accountant in charge (AIC), an audit senior and two trainees.

Cleanup's draft accounts for the year ended 30 June 2024 show revenue of GH¢11.6 million (2023 – GH¢8.1 million) and total assets of GH¢3.6 million (2023 – GH¢2.55 million). During your visit, a review of the audit working papers revealed the following:

- (i) On the audit planning checklist, the audit senior has crossed through the analytical procedures section and written 'not applicable – new client'. The audit planning checklist has not been signed off as having been reviewed. **(5 marks)**
- (ii) The AIC has noted the following matter for your attention. The financial statements to 30 June 2023 disclosed, as unquantifiable, a contingent liability for pending litigation. However, the AIC has seen a letter confirming that the matter was settled out of court for GH¢450,000 on 14 September 2023. The auditor's report on the financial statements for the year ended 30 June 2023 was unmodified and signed on 19 September 2023. The AIC believes that Cleanup's management is not aware of the error and has not brought it to their attention.

(5 marks)

Required:

Identify and comment on the implications of these findings for Green & Co's system of quality management.

(Total: 20 marks)

QUESTION TWO

Your firm has recently been appointed the statutory auditor of Cassoulet, a limited liability company in Ghana, for the year ended 31 December 2024. The previous auditors, from whom your firm has received professional clearance, did not wish to be re-appointed as auditors.

The principal activities of the company are the distribution and retail of fine French food products. All products are imported from suppliers based in France and delivered to Cassoulet's central warehouse in Accra. The company has its own retail outlets but also supplies national supermarket chains and small independent retailers in Ghana. Sales through Cassoulet's retail outlets are on a cash basis and sales to supermarkets and independent retailers are on a credit basis.

The company maintains computerised inventory records for inventories held at the distribution centre and retail outlets. The inventory records are supported by continuous counting procedures and as a result the company does not undertake a physical count at the year end.

Cassoulet's retail outlets are equipped with computerised tills. As each sale is recorded the computer updates the quantity sold and the inventory balance. The manager at each outlet is responsible for banking the takings on a daily basis.

During the year the company engaged consultants to design and implement the company's new website with online ordering facilities. Under the terms of the contract, the website was scheduled to be operational by the end of September 2024 in order to take advantage of the high seasonal demand at this time of the year. Due to technical problems, the website was not launched until the end of November 2024. The consultants have been paid in full for their work. However the company has commenced legal proceedings for breach of contract.

Despite failing to meet its revenue targets in respect of online revenue, the management accounts for the 11 months to 30 November 2024 indicate an increase in revenue of 12% compared with the same period in 2023. Inventory and receivables balances are significantly higher than the previous year as a result of the increased level of activity.

Management is planning to expand the retail activities of the business by opening additional retail outlets. It is hoping to fund the expansion with a bank loan and has approached the company's bankers to provide the funding. The bankers require the audited financial statements before making a decision. Management is keen to have the funding in place to progress with the expansion and would like to have the audit completed by 28 February 2025.

Required

Identify, from the circumstances described above, the key audit risks and for each risk:

- a) List the factors which have led you to identify that risk; and
- b) Outline the audit work you would perform to address the risk.

(Total: 20 marks)

QUESTION THREE

Wagashi Co manufactures a range of dairy products (for example, milk, yoghurt and cheese) in one factory. Products are stored in a nearby warehouse (which is rented by Wagashi) before being sold to 350 supermarkets located within 200 kilometres of Wagashi's factory. The products are perishable with an average shelf life of eight days. Wagashi's financial statements year-end is 31 July.

It is four months since the year-end at your audit client of Wagashi and the annual audit of Wagashi is almost complete, but the auditor's report has not been signed.

The following events have just come to your attention. Both events occurred in late November.

- (i) A fire in the warehouse rented by the company has destroyed 60% of the inventory held for resale.
- (ii) A batch of cheese produced by Wagashi was found to contain some chemical impurities. Over 300 consumers have complained about food poisoning after eating the cheese. 115 supermarkets have stopped purchasing Wagashi's products and another 85 are considering whether to stop purchasing from Wagashi. Lawyers acting on behalf of the consumers are now presenting a substantial claim for damages against Wagashi.

Required:

In respect of EACH of the events at Wagashi Co mentioned above:

- a) Describe the additional audit procedures you will carry out; **(8 marks)**
- b) Justify whether or not the financial statements for the year end require amendment; and **(6 marks)**
- c) Discuss whether or not the auditor's report should be modified. **(6 marks)**

Note: The total marks will be split equally between each event. (Total: 20 marks)

QUESTION FOUR

- a) The Auditor General is required in Ghana to submit his Report to the Public Accounts Committee off Parliament within six months of the end of the year to which it relates.

Required:

Identify the principal matters to which this Report must draw attention. **(10 marks)**

- b) In order to make sure that government business is conducted correctly in Metropolitan, Municipal, and District Assemblies (MMDAs), Ministries, Departments, and Agencies (MDAs), the Auditor-General may conduct compliance audits and report the outcome to Parliament and the auditee.

Required:

- i) Assess the basis for the conduct of compliance audit in MMDAs. **(6 marks)**

- ii) Discuss the main information that should be contained in the compliance audit report **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) You are the audit manager in the audit firm of Afrani & Co. One of your audit clients is Opong Sports Co, a company specialising in the manufacture and supply of sporting equipment. Opong Sports have been an audit client for seven years and you have been audit manager for the past three years while the audit partner has remained unchanged.
- You are now planning the audit for the year ending 31 December 2023. Following an initial meeting with the directors of Opong Sports, you have obtained the following information.
- Opong Sports is attempting to obtain a listing on a recognised stock exchange. The directors have established an audit committee, as required by corporate governance regulations, although no further action has been taken in this respect. Information on the listing is not yet public knowledge.
 - You have been asked to continue to prepare the company's financial statements as in previous years.
 - As the company's auditors, Opong Sports would like you and the audit partner to attend an evening reception in a hotel, where Opong Sports will present their listing arrangements to banks and existing major shareholders.
 - Opong Sports has indicated that the fee for taxation services rendered in the year to 31 December 2022 will be paid as soon as the taxation authorities have agreed the company's taxation liability. You have been advising Opong Sports regarding the legality of certain items as 'allowable' for taxation purposes and the taxation authority is disputing these items. Finally, you have just inherited about 5% of Opong Sport's share capital following the death of a distant relative.

Required:

- (i) Explain the actions that the board of directors of Opong Sports must take in order to meet corporate governance requirements for the listing of Opong Sports Co. **(6 marks)**
- (ii) Explain why your audit firm will need to communicate with Opong Sport's audit committee for this and future audits. **(4 marks)**
- b) Eco-Essence is a limited liability company set up to produce water and pharmaceutical products. Currently, it produces only sachet water. It has all the necessary certifications for production, including that of Food and Drug Authority (FDA), Environmental Protection Agency and District Assembly. The Company operates from a quasi-residential area. Of late, the residents of the area have been complaining of increase in the noise levels from the plant, pollution as a result of the sachet water rubbers, waste water from the plant making some part of the community marshy and deterioration of the quality of the roads due to the weight of heavy-duty vehicles.

Required:

As a senior auditor, you have been scheduled to perform the audit of Eco-Essence.

- i) Briefly outline why *environmental issues* are important to you in the audit of Eco-Essence. **(3 marks)**
- ii) Discuss how you will carry out *environmental audit* on Eco-Essence. **(7 marks)**
- (Total: 20 marks)**

SOLUTION TO QUESTIONS

QUESTION ONE

a)

- The appointment will have to be defined very clearly in the letter of engagement. The company will have to confirm a detailed description of the limits of FFAF's responsibility for the preparation of the bookkeeping records and the audit of the financial statements. The terms of the engagement should make it clear that the audit firm will take no direct part in the preparation of financial statements. The responsibility for selecting accounting policies and making significant accounting estimates and judgements should remain with company's management.
- The company's management should agree that it will accept full responsibility for all matters of judgement, including the preparation of journal entries. Audit firm staff will only undertake work of a routine and mechanical nature.
- The audit firm should ensure that the staff members responsible for the work undertaken have nothing to do with the audit itself. They will have had no prior connection to the company because this is a new audit. The supervision of the bookkeeping work might also be made the responsibility of a different partner from the person responsible for the audit.
- The bookkeeping staff should not be granted access to audit working papers. The audit staff should treat them with no more trust and familiarity than they would other members of the company's staff.
- Any assertions made by the bookkeeping staff should be subject to the same degree of checking as would be the case if made by a direct employee of the company.
- The company should be asked to agree in writing that it will appoint the bookkeeping staff appointed by the audit firm in the event of the firm being removed from office. The only proviso might be that the individual employees' performance must be deemed satisfactory by the company.

(Any 5 points well explained for 10 marks)

b) (a) Analytical procedures

Applying analytical procedures at the planning stage, to assist in understanding the business and in identifying areas of potential risk, is enshrined in an auditing standard (ISA 315) and therefore mandatory. Analytical procedures should have been performed (e.g. comparing the draft accounts to 30 June 2024 with prior year financial statements).

The audit senior may have insufficient knowledge of the waste management service industry to assess potential risks. In particular, Cleanup may be exposed to risks resulting in unrecorded liabilities (both actual and contingent) if claims are made against the company in respect of breaches of health and safety legislation or its licence to operate.

The audit has been inadequately planned and audit work has commenced before the audit plan has been reviewed by the AIC. The audit may not be carried out effectively and efficiently.

Tutorial note: An alternative stance might be that the audit senior did in fact perform the analytical procedures but was careless in completion of the audit planning checklist. This would have quality management implications in that the checklists cannot be relied on by the reviewer.

(5 marks)

Prior period error

It appears that the subsequent events review was inadequate in that an adjusting event (the out-of-court settlement) was not taken account of. This resulted in material misstatement in the financial statements to 30 June 2023 as the provision for C450,000 which should have been made represented 18% of total assets at that date.

The AIC has not taken any account of the implications of this evidence for the conduct of the audit as the overall audit strategy and audit plan should have been reconsidered. For example:
the oversight in the subsequent events review may not have been isolated and there could be other misstatements in opening balances (e.g. if an impairment was not recognised);
there may be doubts about the reliability of managements' written representations if it confirmed the litigation to be pending and/or asserted that there were no events after the reporting period to be taken account of.

The misstatement has implications for the quality of the prior period's audit that may now require that additional work be carried out on opening balances and comparatives.

As the matter is material it warrants a prior period adjustment (IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). If this is not made Cleanup's financial statements for the year ended 30 June 2024 will be materially misstated with respect to the current year and comparatives – because the expense of the out-of-court settlement should be attributed to the prior period and not to the current year's net profit or loss.

The need for additional work may have a consequential effect on the current years' time/fee/staff budgets.

The misstatement should have been brought to the attention of Cleanup's management when it was discovered, so that a prior year adjustment could be

made. If the AIC did not feel competent to raise the matter with the client he should have discussed it immediately with the audit manager and not merely left it as a file note.

System of QM at audit firm level/conclusions

That the audit is not being conducted in accordance with ISAs (e.g. ISA 300 *Planning an Audit of Financial Statements*, ISA 315 *Identifying and Assessing the Risks of Material Misstatement* and ISA 520 *Analytical Procedures*) means that Green's system of quality management is not established, functioning effectively and/or are not being communicated to personnel.

That audit work is being assigned to personnel with insufficient technical training and proficiency indicates weaknesses in procedures for hiring and/or training of personnel.

That there is insufficient direction, supervision and review of work at all levels to provide reasonable assurance that audit work is of an acceptable standard suggests a lack of resources.

Procedures for the acceptance of clients appear to be inadequate as the audit is being conducted so inefficiently (i.e. audit work is inappropriate and/or not cost-effective). In deciding whether or not to accept the audit of Cleanup, Green should have considered whether it had the ability to serve the client properly. The partner responsible for accepting the engagement does not appear to have evaluated the firm's (lack of) knowledge of the industry.

The staffing of the audit of Cleanup should be reviewed and a more experienced person assigned to its completion and overall review.

(5 marks)
(Total: 20 marks)

QUESTION TWO

Tutorial note: The answer is not separated into parts (i) and (ii) as they are so closely connected. An alternative layout would be to adopt a columnar format for your answer. This answer is in note-form to demonstrate the breadth and depth of points you need to make for a pass-standard answer. Subsequent answers are presented in a more full-format.

Risk: No inventory count at year-end

Factor: Traditionally a good source of audit evidence

Audit work:

Evaluate reliability of inventory records

Review reliability of continuous inventory checking records

Check cut-off (goods received notes and goods despatched notes).

Risk: Overstatement of inventories

Factor: Non-compliance with IAS 2, higher levels of inventory (nature of inventory, thus theft)

Audit work:

Check lower of cost and NRV is used for all lines of inventory

Check the premises for all obsolete, damaged and slow-moving inventory

Check sell-by dates for all lines of inventory.

Risk: Misstated opening balances

Factor: Recent appointment

Audit work:

Check that the opening balances have been brought forward correctly

Consultation with management

Review of previous period's accounting records and control procedures/ client working papers and schedules

Review the previous auditor's work

If the above is unsatisfactory, perform substantive procedures on opening balances.

Risk: Internal controls not applied at all locations

Factor: Multiple locations

Audit work:

Branch visits to test internal controls

Cash counts reconciled to till records.

Risk: Mis-stated purchases/payables/inventory

Factor: French suppliers likely to involve foreign currency transactions

Audit work:

Check appropriate exchange rates used in translation

Recalculate sample of foreign currency translations

Check ability of accounting system to deal with foreign currency
Sensitivity analysis on forecasts to assess impact of a rise or fall in the euro.

Risk: Unrecorded cash sales

Factor: Retail sales on a cash basis

Audit work:

Evaluate and test controls over cash

Analytical review of profit margins

Review results of inventory counts to ascertain any shortfalls.

Risk: Inappropriate accounting treatment of website, unreliable accounting systems

Factor: Development of website

Audit work:

Review costs included and ensure capital in nature

Test internal controls over on-line ordering system.

Risk: Overstatement of receivables

Factor: Area of judgement is uncertain as to recoverability of receivables

Audit work:

Circularisation of receivables

Ascertain whether customer monies were received after end of the period

Age analysis of receivables balances

Review the allowance for receivables (irrecoverable debts).

Risk: Inappropriate recording of a contingency

Factor: Legal proceedings against consultants

Audit work:

Inspect legal correspondence with lawyers

Review compliance with IAS 37 Provisions, contingent liabilities and contingent assets

Obtain written representations from management on completeness of disclosures.

Risk: Failure to identify significant events or transactions which impact on the financial statements

Factor: Limited time for review of period after end of reporting period, new client, lack of familiarity

Audit work:

Second partner review of high risk areas.

(Total: 20 marks)

QUESTION THREE

(a) Fire at warehouse

(i) Audit procedures

Discuss the matter with the directors checking whether the company has sufficient inventory to continue trading in the short term.

Enquire that the directors are satisfied that the company can continue to trade in the longer term. Ask the directors to sign an additional written representation letter to this effect.

Obtain a schedule showing the inventory destroyed and if possible check this is reasonable given past production records and inventory valuations.

Enquire that the insurers have been informed. Review correspondence from the insurers confirming the amount of the insurance claim.

Consider whether or not Wagashi can continue as a going concern, given the loss of inventory and potential damage to the company's reputation if customer orders cannot be fulfilled.

(ii) Amendment to financial statements

Enquire whether the directors have considered whether the event needs disclosure in the financial statements. Disclosure is unlikely given that the inventory was not in existence at the year-end and on the assumption that insurance is adequate to cover the loss.

Amendment is not required as the fire did not affect any company property and the inventory would not have been in existence at the year-end (inventory turnover being very high).

(iii) Modification of auditor's report

If Wagashi's ability to continue as a going concern is in uncertain, but disclosure of the uncertainty is adequate, a Material Uncertainty Relating to Going Concern paragraph must be added to the auditor's report. This paragraph is placed after the Basis for Opinion paragraph and draws attention to the note in the financial statements disclosing the material uncertainty. It also states that a material uncertainty exists and that the auditor's opinion is not modified in respect of the matter.

If the disclosure made by the directors is considered to be inadequate, then the auditor's must modify the audit opinion using a qualified ("except for") or adverse opinion.

(b) Batch of cheese

(i) Audit procedures

Discuss the matter with the directors, determining specifically whether there was any fault in the production process.

Obtain a copy of the damages claim and again discuss with the directors the effect on Wagashi and the possibility of success of the claim.

Obtain independent legal advice on the claim from Wagashi's lawyers. Attempt to determine the extent of damages that may have to be paid.

Review any press reports about the contaminated cheese. Consider the impact on the reputation of Wagashi and the ability of the company to continue as a going concern.

Discuss the going concern issue with the directors. Obtain an additional written representation letter on the directors' opinion of the ability of Wagashi to continue as a going concern.

(ii) Amendment to financial statements

The event should be disclosed in the financial statements in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as it may have a significant impact on Wagashi. Over two-thirds of Wagashi's customers have either stopped purchasing products from the company or are considering taking this action.

No adjustment is required for the event itself as it was not a condition at the end of the reporting period.

However, the event may become adjusting if company's reputation has been damaged and the amount of the legal claim is significant. In this situation the directors may decide that Wagashi is no longer a going concern so the financial statements may have to be re-drafted on a break-up basis. This action complies with IAS 8; the break-up basis is used where the directors have no realistic alternative but to liquidate the company.

(iii) Modification of auditor's report

Modification of the auditor's report depends on the director's actions above.

If the financial statements are prepared on an alternative basis (e.g. liquidation basis), and the auditor agrees with that assessment, then an unmodified report can be issued with an emphasis of matter paragraph drawing attention to the accounting basis used and the reason for its use.

However, if the financial statements are prepared using the going concern basis of accounting, and the auditor agrees with this, then he needs to include a Material Uncertainty Relating to going Concern paragraph after the Basis for Opinion paragraph. This paragraph draws attention to the going concern uncertainty and the disclosure of the note on the fire in the financial statements. It also states that the auditor's opinion is not modified in respect of the matter.

If Wagashi is not a going concern, and the financial statements have been prepared using the going concern basis of accounting, the auditors must give an adverse opinion stating that the going concern basis of accounting is inappropriate.

(Total: 20 marks)

QUESTION FOUR

(b) The Auditor General's Report must draw attention to any cases in which he has observed that:

- ☐ An officer or employee of Government has wilfully or negligently omitted to collect or receive any public money due to the Government;
- ☐ Any public money was not duly accounted for and paid into the consolidated Fund or other designated public account;
- ☐ An appropriation was exceeded or was applied for a purpose or in a manner not authorised by law;
- ☐ An expenditure was not authorised or properly vouched for or certified;
- ☐ There has been a deficiency through fraud, default or mistake of any person;
- ☐ Applicable internal controls are inefficient or ineffective;
- ☐ Resources have not been used with due regard to economy, efficiency and effectiveness in relation to the results attained;
- ☐ In the public interest, the matter should be brought to the notice of Parliament.

(5 points for 10 marks)

i) The basis for compliance audit are:

- The laws and regulations under which the entity being audited operates and of which it is required to comply. This will ascertain those laws and regulations to determine whether the auditee is fully aware of them and the consequences of any breach thereof.
- Internal rules, procedures and directives. These involve ascertaining the entities procedures designed to ensure that the operations and activities are designed to be in compliance with the laws and regulations.
- Compliance with the laws and regulations: The audit is conducted to ascertain the extent of compliance or non-compliance with the laws and regulation and the determination of whether non-compliance is deliberate or due to ignorance.
- Consequence of non-compliance: The audit will determine the possible sanctions or punishment that would arise as a result of the non-compliance.

(4 points for 6 marks)

ii) The compliance audit report will highlight the following:

- The laws and regulations governing the entity that ought to be complied with. This may be termed as the criteria against which the entity's compliance is measured.
- The entities awareness of the laws and regulations and the conduct of operations in line with the laws and regulation. The conditions noted.
- The effect of non-compliance. The consequences of the non-compliance will be clearly spelt out in the report.

- Recommendations. These are intended to enable the auditee to rectify and/or prevent future reoccurrence of the non-compliance.

(4 points for 4 marks)

(Total: 20 marks)

QUESTION FIVE

a) Meeting corporate governance requirements

- Currently, the only action that the directors appear to have taken is to establish an audit committee. Given that Opong Sports is going to be listed on a recognised stock exchange, then there are other corporate governance requirements to be met. These requirements include:
- Ensuring that the chairman and the company managing director/chief executive officer (CEO) are different people.
- Appointing non-executive directors (NEDs) to the board of Opong Sports. The majority of non-executive directors shall be independent.
- Establishing a risk committee, a remuneration committee and a nominating committee. Appointing the NEDs to these committees and the audit committee.
- Ensure the chairman of the audit committee is a chartered accountant and an independent non-executive director.
- Establish an internal audit function if one does not already exist.
- Ensure that Opong Sports has a sound system of internal control and that the directors recognise their responsibilities for establishing and maintaining this system.
- Establishing procedures to maintain contact with institutional shareholders and any other major shareholders. The evening reception for shareholders could become a regular event in this respect.
- Checking that the annual financial report contains information on corporate governance required by the *Corporate Governance Code for Listed Companies 2020* (e.g. a statement as to the adequacy of internal control mechanisms and procedures).
- Appoint a whistleblower.

(6 marks)

(c) **Communication with the audit committee**

Under most systems of corporate governance, the external auditor's primary point of contact with a company is the audit committee. There are various reasons for this:

Initially, to ensure that there is independence between the board of directors and the audit firm. The audit committee consists of at least three directors, the majority of which should be independent non-executive directors (NEDs), who by definition are independent of the company and can therefore take an objective view of the auditor's report.

The *Corporate Governance Code for Listed Companies* 2020 requires the audit committee to be a channel of communication between the external auditors and the Board.

The audit committee will have more time to review the auditor's report and other communications to the company from the auditor (e.g. management letters) than the board. The auditor should therefore benefit from their reports being reviewed carefully.

The audit committee can ensure that any recommendations from the auditor are implemented. The audit committee has independent NEDs who can pressurise the board to taking action on auditor recommendations.

The audit committee also has more time to review the effectiveness and efficiency of the work of the external auditor than the board. The committee can therefore make recommendations on the re-appointment of the auditor, or recommend a different firm if this would be appropriate.

(4 marks)

b)

i) **Why environmental issues are important to the auditor.**

- In view of the uncertainties in recognising and measuring environmental liabilities, typically relating to the timing of clean up, the technology available or possible new legislation, the auditor needs to exercise particular care in assessing the risk of a material misstatement or omission in the financial statements.
- Where environmental matters may be a significant source of risk, an internal control system would not be effective unless it covered items giving rise to environmental risk.
- Whilst management is responsible for all internal controls to safeguard the shareholders' investment and the company's assets, the auditor is only concerned with those environmental controls that are considered relevant to the audit of the financial statements.
- Auditors carry out their work recognising that non-compliance with laws or regulations may materially affect the financial statements. In view of the growing body of environment law, the auditor needs to obtain a general understanding of these laws and regulations relevant to the business, including those that are specific to an industry sector.
- There are a number of difficulties in recognising and measuring the financial effects of environmental matters in the financial statements, all of which may have implications for the auditor.

- Where management engages an expert to provide technical advice to assist in developing estimates and disclosures in the financial statements relating to environmental matters, the auditor should consider the adequacy of such work, as well as the expert's competence and objectivity.
- The auditors should also consider any going concern issues that could arise on account of environmental challenges.

(Any 3 points for 3 marks)

ii) The conduct of the environmental audit will follow this approach

Planning the audit

Performing Substantive Procedures

Carrying a review and reporting

- During the Planning stage, the auditor needs to obtain knowledge of the business to determine how the company's operation impact the environment and the nature of laws and regulations which the company has to comply with in its operations.
The auditor will have to carry out inherent risk assessment to determine which environmental factors can translate into material misstatement in the financial statements and can affect the going concern of the entity.
- During Substantive procedures, the auditor will gather appropriate and sufficient evidence to ensure the correct treatment of the following in the financial statements;
Provisions- for site restoration, fines and compensation
Contingent liabilities in relation to pending legal action
Asset values- issues that may impact on impairment or purchase goodwill and products.
Capital/Revenue expenditure- cost of cleanup or meeting legal standards
Development cost-new products
Going concern issues
- At the review stage of the audit, the auditor will take into account environmental issues to determine whether management use of going concern basis is reasonable and acceptable to determine the type of opinion to issue.

(2 marks for 3 points well explained = 6 marks)

(1 mark for Professional Presentation)

(Total: 20 marks)