



APPLICATION LEVEL EXAMINATION

2024-2029 Syllabus

Mock Exam

(3 hours)

Audit and Assurance Paper 2.3

QUESTION ONE

- a) The shareholders of Store and Quarry Ltd namely Obodai and Obosie are residing abroad. They appointed directors to see to the day to day running of the company. The directors produced the financial statements of the company which show a true and fair view. Other relevant information regarding directors' pay and benefits, going concern and management of risk have been provided by the directors. In order to know the accuracy of the information provided, the shareholders engaged your firm Standard and Co. Chartered Accountants to perform an assurance engagements.

Required:

- i) Explain an *assurance engagement* as provided by IAASB. (2 marks)
 - ii) Explain **FOUR** elements of an assurance engagement. (4 marks)
 - iii) Describe the differences between *reasonable assurance* engagement and *limited assurance* engagements. (4 marks)
- b) *ISA 200: Overall Objectives of Independent Auditor and the Conduct of an Audit* and *ISA 300 - Planning an Audit of Financial Statements* requires that auditors should plan in order to conduct the audit in an effective, efficient and timely manner. The plan should include overall audit strategy and detailed audit plan.

Required:

- i) Distinguish between *audit strategy* and *audit plan*. (4 marks)
- ii) Identify the contents of audit strategy and audit plan. (6 marks)

(Total: 20 marks)

QUESTION TWO

- a) J.K. Asenso is a member of a team auditing the financial statement of Sascraku Co. Ltd for the year ended 31 December 2017. Shortly after the end of the audit, the media made an allegation of fraudulent activities with the aim of reducing tax liability against the company. A committee was appointed by Ghana Revenue Authority (GRA) to examine the books of the company to substantiate the allegations.

The committee discovered the following anomalies:

- Diverting receipts to private bank accounts;
- Stealing physical assets or intellectual property;
- The entity paid for goods that had not been received;
- Assets had been used for personal purposes.

The directors were not happy with the work of the auditors due to their inability to discover the above anomalies.

Required:

- i) Explain the responsibility of the Auditor with respect to detection and prevention of fraud. (5 marks)
- ii) Outline the audit procedures that the auditors should have adopted to detect the above anomalies. (5 marks)
- b) Yaw Manu is a Chartered Accountant who has been appointed as an auditor of Level Ltd at the annual general meeting of the company in December 2009 which assignment Yaw Manu accepted. In April 2010, Yaw Manu joined Kwaku Assenso also a Chartered Accountant, who is the Finance Manager of Level Ltd, as a partner.

Required:

Discuss the ethical issues raised in the above scenario. (5 marks)

- c) Explain **FIVE** factors you will consider before placing reliance on the work of the internal auditors. (5 marks)

(Total: 20 marks)

QUESTION THREE

International Training Center (ITC) is a large company limited by shares which operates a network of teaching centers in countries across West Africa. The Company was incorporated under the requirements of the Companies Act, 1963 (Act 179) on 19 January 1990 and domiciled in Ghana. Students who register with the Center pay 30% during initial registration and the remaining 70% over the course period. You are the senior Associate of Add Consult. ITC is a new client and you are currently planning the audit with the audit manager to audit the company for the year ended 31 December 2023.

You have been provided with the following planning notes from the audit partner following his meeting with the Finance Director.

- ITC purchases stationery from a supplier in China and these goods are shipped to the company's central warehouse. The goods are usually in transit for a fortnight and the company correctly records the goods when received. ITC does not undertake a year-end inventory count, but carries out monthly continuous (perpetual) inventory counts and any errors identified are adjusted in the inventory system for that month.
- During the year the directors of the Company have each been paid a significant bonus, and they have included this in wages and salaries expenses. Separate disclosure of the bonus is required by the Companies Act.
- ITC has a policy of revaluing its land and buildings and this year has updated the valuations of all land and buildings.
- During the year the company introduced a bonus based scheme on sales for its sales persons. The bonus target was based on increasing the number of students signing up for 6-month courses by the school for individuals running accountancy examinations. This has been successful and revenue has increased by 25%, especially in the last few months of the year. The level of receivables is considerably higher than last year and there are concerns about the creditworthiness of some students.

Required:

- a) Describe **FIVE** audit risks, and explain the auditor's response to each risk, in planning the audit of International Training Center. **(10 marks)**
- b) Identify **FIVE** audit procedures Add Consult should perform in order to place reliance on the continuous (perpetual) counts for year-end inventory. **(5 marks)**
- c) Set out **FIVE** of the seven main audit testing procedures (for example inspection) and give an example of how each might be used in the *audit of plant and machinery*. State the assertion that is being tested in each case. **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) You are the external auditor of Eddie Electronics. A written representation letter has been prepared in which the directors have been asked to confirm that all sales income has been included in the financial statements and that when there is weak evidence of expenditure, the expenditure has been for the benefit of the company and not for the personal benefit of any employee or director.

Required:

- i) Explain the difference between an audit and a review. (3 marks)
- ii) Briefly explain the meaning of the following terms:
- Subsequent events (2 marks)
 - Analytical procedures (2 marks)
 - Going concern evaluations (2 marks)
- b) Discuss the reliability of audit evidence provided by directors in the written representation letter and whether you should rely wholly on the representations of the directors or whether you should obtain other evidence. (5 marks)
- c) Describe the action you would take and the conclusions you would reach if the directors refused to sign a written representation letter. Your answer should specifically consider the statements in the letter concerning completeness of sales income and validity of expenditure. (5 marks)

(Total: 20 marks)

QUESTION FIVE

- a) Tamale Pharma specialises in the development of drugs for the pharmaceutical industry.

Required

State how you could verify the following items appearing in the statement of financial position of Tamale Pharma at 31st December 2023. You are not required to consider presentation and disclosure:

- i) Patents
- ii) Research and development

(10 marks)

- b) Even though both Compliance audits and Performance audits are performed to effect improvements in the program being audited, they have different objectives.

Required:

Distinguish between Compliance audit and Performance audit.

(6 marks)

- c) The Office of the Auditor-General and the Ghana Audit Service, were established by the 1992 Constitution of Ghana. Internationally, the equivalent of Ghana Audit Service is referred to as the Supreme Audit Institution (SAI). The worldwide board of SAIs is called the International Organization of Supreme Audit Institutions (INTOSAI). Whereas Ghana Audit Service is used in Ghana, the name varies from country to country. The mandate for public sector audit is vested exclusively in the Auditor-General and Article 187 of the Constitution.

Required:

State **FOUR** mandates of the Auditor-General.

(4 marks)

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

i) An *assurance engagement* is one in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the evaluation or measurement of a subject matter against criteria). **(2 marks)**

ii) An assurance engagement performed by a practitioner will consist of the following elements:

- **A three party relationship** – The three parties are the intended user, the responsible party and the practitioner.
- **A subject matter:** This is the data to be evaluated that has been prepared by the responsible party. It can take many forms including financial performance (e.g. historical financial information, non-financial performance (e.g. key performance indicators), processes (e.g. internal control) and behavior (e.g. compliance with laws and regulations).
- **Suitable criteria:** The subject matter is evaluated or measured against criteria in order to reach opinion.
- **Evidence:** Sufficient appropriate evidence needs to be gathered to support the required level of assurance.
- **An assurance report:** A written report containing the practitioners' opinion is issued to the intended user, in the form appropriate to a reasonable assurance engagement or a limited assurance engagement.

(1 mark each for any four valid points made)

(4 marks)

iii) **Reasonable Assurance Vs Limited Assurance**

- Reasonable assurance engagement is where a high, but not absolute level of assurance is given. The object of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The conclusion would usually be expressed in a positive form. In order to give reasonable assurance, a significant amount of testing and evaluation is required to support the conclusion. **(2 marks)**

Limited assurance is a lower level of assurance. The nature, timing and extent of the procedures carried out by the practitioner in a limited assurance engagement would be limited compared with what is required in a reasonable assurance engagement. Nevertheless, the procedures performed should be planned to obtain a level of assurance which is meaningful in the practitioner's professional judgment.

For a limited assurance engagement the conclusion conveys whether, based on the procedures performed and evidence obtained, a matter (s) has come to the practitioner's

attention to cause the practitioner to believe the subject matter information is materially misstated. This would usually be expressed in a negative form of words. **(2 marks)**

b)

i) Audit strategy sets the overall scope, timing and direction of an audit and guides the development of the more detailed audit plan.

Audit plan is more detailed process which set out the work to be done in order to achieve the audit strategy.

(2 marks)

While audit strategy are audit assessments done by the senior audit personnel to determine the overall audit approach and risk nature of the audit, audit plan is a set of instructions to audit team specifying the audit procedures that should be performed in each area of the audit **(2 marks)**

ii) **Audit strategy entails the following:**

- Determines the characteristics of the engagement that define its scope such as:
- The reporting standards applying to the audit
- Industry specific reporting requirement
- Reporting objectives of the engagement
- Reporting deadlines
- Nature of communications and reports required
- Factors which will determine the focus of the audit
- Materiality
- Risk assessment
- The audit approach – whether relying on internal control. The extent of test to perform etc.
- Any recent developments in relation to the entity, the industry or financial reporting requirements
- Determining the nature, the extent and timing of the resources from the results of the above
- Which staff and how many to use
- Which areas of the audit to use them
- How are they to be managed supervised and directed

(Any 3 points for 3 marks)

Audit plan on the other hand deals with

- Procedures to be used in order to assess the risk of misstatement in the entity's records and financial statement etc.
- Materiality assessment
- Preliminary analytical procedures
- Detailed risk assessment

- Audit procedures in response to assessed risks
- Audit plan is set in a series of instructions to audit team to address the concerns of audit strategy.

(Any 3 points for 3 marks)

(Total: 20 marks)

QUESTION TWO

a)

i)

- The primary responsibility for prevention or discovering of anomalies is of those charged with governance and the management of the entity.
- The management designs and operates accounting and internal control systems to discharge this responsibility.
- The responsibility of those charged with governance will be to ensure the integrity of the entity's accounting and financial reporting system and appropriateness of established controls.

Responsibilities of Auditor

- **Obtain reasonable assurance** – a financial audit is conducted by the auditor to obtain reasonable (not absolute) assurance that the financial statement are free from material misstatement caused by fraud and error.
- **Cleverly concealed frauds are difficult to detect** -Due to certain inherent limitations, even an audit which is properly planned and performed in accordance with generally accepted auditing standards, may fail to detect a cleverly concealed fraud. This particularly happens in cases of fraud involving forgery or collusions among employees or management or those charged with governance. The auditor, thus, cannot be held responsible for the prevention and detection of those anomalies.
- **Consider risk of material misstatements**- The term reasonable assurance implies that some risk of material misstatement could be present in the financial statement and the auditor will fail to detect it. Therefore, he should consider the risk of material misstatement resulting from fraud or error during all the stages of audit process.

(1 mark each for any 5 valid point made)

ii) **Procedures the auditors should have adopted to detect the anomalies:**

- **Examining journal entries and other adjustments**
The auditor's understanding of the entity's financial reporting process, including automated and manual procedures used to prepare financial statements and related disclosures, and how misstatements may occur.

- **Reviewing accounting estimates for bias**

The auditor must perform a retrospective review of significant prior-year estimates for any potential bias that might signal inappropriate earnings management (for example, recorded estimates clustered at one end of an acceptable range in the prior year and at the other end of an acceptable range in the current year).

- **Evaluating the business rationale for significant unusual transactions**

Although the auditor typically gains an understanding of significant transactions, the auditor should place a greater focus on understanding the underlying business rationale for significant unusual transactions. In this context, unusual transactions are those that come to the auditor's attention that are outside the normal course of business for the company or that otherwise appear unusual.

(Any 2 points well explained @ 2.5 marks each = 5 marks)

b)

In the given case, Yaw Manu has been appointed as an auditor of Level Ltd in the annual general meeting. Subsequently, he has become a partner of Kwaku Assenso who is the Finance manager (employee) of Level Ltd. This is one of the grounds for disqualification. Therefore, Yaw Manu shall be deemed to have vacated office automatically.

The ethical issues that could be raised in the above scenario are:

- Independence
- Self Review
- Confidentiality
- Conflict of interest
- Objectivity
- Collusion

(5 marks)

c) **Factors to consider before placing reliance on the work of internal auditors**

The external auditors would normally be able to use the work of the internal auditors provided that:

- **They are independent** (in this case, of the accounting department and finance director to whom the accounting department reports). It appears that they have reported to the whole board, which would be a factor increasing their independence. It would be even better if they had strong links with the audit committee (if applicable).
- **They are competent.** Your firm would have formed a view in past years of their reliability by considering the background (including qualifications and experience, particularly as regards forecasting) of the internal audit staff and by examining their reports and working papers. You may also have reviewed some aspects of their work in the current year to the same end.

- **Effective communication**, whether there is likely to be effective communication between the internal auditors and the external auditor.
- Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.
- The internal audit function does not have managerial or operational duties that are outside of the internal audit function.
- **They have exercised due professional care**, the work would need to have been properly planned including detailed work programmes, supervised, documented and reviewed. The company is experiencing difficulties due to the economic down turn and it requires the loan in order to expand. Management might place pressure upon the internal auditors to present the cash flow forecast in a more favourable light.

(Total: 20 marks)

QUESTION THREE

a) Audit risks and response

Audit risk	Auditor's response
<p>International Training Center is a new client for Add Consult. As the team is not so familiar with the accounting policies, transactions and balances of the Company, there will be an increased detection risk on the audit.</p>	<p>Add Consult should ensure they have a suitably experienced team. Also, adequate time should be allocated for team members to obtain an understanding of the company and the risks of material misstatement.</p>
<p>The Company purchases their goods from China and the goods are in transit for forth night. At the year end there is a risk that the cut-off of inventory, purchases and payables may not be accurate. The company correctly accounts for goods when they receive them. Therefore at the year-end only goods which have been received into the warehouse should be included in the inventory balance and a respective payables balance recognised.</p>	<p>The audit team should undertake detailed cut-off testing of goods in transit from the suppliers in China to ensure that the cut-off is complete and accurate.</p>
<p>The company undertakes continuous (perpetual) inventory counts at its central warehouse. Under such a system all inventory must be counted at least once a year with adjustments made to the inventory records. Inventory could be under or overstated if the continuous (perpetual) inventory counts are not complete and the inventory records accurately updated for adjustments.</p>	<p>The completeness of the continuous (perpetual) inventory counts should be reviewed. In addition, the level of adjustments made to inventory should be considered to assess whether reliance on the inventory records at the year-end will be acceptable.</p>
<p>A sales-related bonus scheme has been introduced in the year; this may lead to sales cut-off errors with employees aiming to maximise their current year bonus</p>	<p>Increased sales cut-off testing will be performed along with a review of any post year-end cancellations of contracts as they may indicate cut-off errors.</p>
<p>Receivables are considerably higher than the prior year and there are concerns about the creditworthiness of some students. There is a</p>	<p>Extended post year-end cash receipts testing and a review of the aged receivables ledger to</p>

<p>risk that some receivables may be overvalued as they are not recoverable.</p> <p>In addition, receivables could be overstated as a result of the bonus scheme; some of the customers signed up for contracts may not actually exist.</p> <p>The Company has a policy of revaluing its land and buildings and these valuations have been updated during the year.</p> <p>Property, plant and equipment could be under or overvalued if the recent valuation has not been carried out in accordance with IAS 16 Property, Plant and Equipment and adequate disclosures may not have been made in the financial statements.</p> <p>The directors have each been paid a significant bonus and separate disclosure of this in the financial statements is required by the Companies Act, 1963 (Act 179).The directors' remuneration disclosure will not be complete and accurate if the bonus paid is not disclosed in accordance with the Companies Act, 1963 (Act 179)</p>	<p>be performed to assess valuation. Also consider the adequacy of any allowance for receivables. External confirmation of receivables to confirm that customers exist and represent valid amounts due.</p> <p>Discuss with management the process adopted for undertaking the valuation, including whether the whole class of assets was revalued and if the valuation was undertaken by an expert. This process should be reviewed for compliance with IAS 16.</p> <p>Review the disclosures of the revaluation in the financial statements for compliance with IAS 16.</p> <p>Discuss this matter with management and review the disclosure in the financial statements to ensure compliance with the Companies Act, 1963 Act 179).</p>
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(5 points for Audit risks @ 5 marks)
(5 points for Recommendations @ 5 marks)

b) Audit procedures for continuous (perpetual) inventory counts

- The audit team should attend at least one of the continuous (perpetual) inventory counts to review whether the controls over the inventory count are adequate.
- The audit team should confirm that all of the inventory lines have been counted or are due to be counted at least once a year by reviewing the schedules of counts undertaken/due to be undertaken.
- Review the adjustments made to the inventory records on a monthly basis to gain an understanding of the level of differences arising on a month by month basis.

- If significant differences consistently arise, this could indicate that the inventory records are not adequately maintained.
- Discuss with management how they will ensure that year-end inventory will not be under or overstated.
- Consider attending the inventory count at the year end to undertake test counts of inventory from records to floor and from floor to records in order to confirm the existence and completeness of inventory.

(5 points for 5 marks)

c) The seven main audit testing procedures and the audit of plant and machinery

Procedure	Example from the audit of plant and machinery
Inspection	Physical inspection of plant (relevant to existence).
Observation	Observing maintenance procedures (relevant to accuracy, valuation and allocation).
Inquiry	Inquiring about useful lives/ profits or losses on disposal (relevant to accuracy, valuation and allocation).
Confirmation	Writing to third parties which hold client's plant and asking them to confirm the existence of such plant (relevant to existence).
Recalculation	Recalculating the depreciation charge for the year (relevant to accuracy, valuation and allocation).
Reperformance	Reperform a control over plant originally carried out by the client (e.g. checking that a sample of plant taken from the asset register exists).
Analytical procedures	Calculate depreciation as a percentage of total asset value, compare to previous years and ensure any change is in line with expectations (relevant to accuracy, valuation and allocation).

(5 points for 5 marks)

(Total: 20 marks)

a) (i) Difference between an audit and a review

Both an audit and a review are types of assurance engagements. In an assurance engagement, an assurance firm is engaged by one party to give an opinion on a piece of information which has been prepared by another party. The opinion is an expression of assurance, or comfort, about the information which has been reviewed.

An audit

In a statutory audit, rather than the shareholders merely accepting the information provided by the financial statements as being sufficiently accurate and reliable, the statutory audit provides assurance as to the quality of that information. That assurance adds credibility to the information provided by the financial statements, making the information more reliable and therefore more useful to the user.

An audit is the work carried out by an auditor in order to reach his opinion on those financial statements. That opinion is usually expressed in terms of whether (or not) the financial statements show 'a true and fair view' (see below).

An audit provides a *high, but not absolute*, level of assurance that the information being audited is free of material (see below) misstatement. This is often referred to as *reasonable* assurance.

A review

A review provides a *moderate* level of assurance that the information under review is free of material misstatement. The resultant opinion is usually expressed in the form of *negative assurance* i.e. 'nothing has come to our attention to suggest that the information is misstated'.

Because the level of assurance given by a review is lower than that provided by an audit, a review usually involves less work on the part of the reviewer than the auditor would carry out.

(2 marks)

(ii) **Subsequent Events**

Subsequent events are events that occur after a company's year-end period but before the release of the financial statements. In other words, subsequent events are events that happen between the cut-off date and the date in which the company issues its financial statements. Depending on the situation, subsequent events may require disclosure in a company's financial statements.

Between the period of the cut-off date and the authorization of financial statements issuance is the subsequent events period. Depending on the type of subsequent event, it may or may not require an adjustment to the financial statements.

(2 marks)

Analytical Review

Analytical procedures consist of 'evaluations of financial information through analysis of plausible relationships among both financial and non-financial data'. They also encompass 'such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount' (ISA 520). A basic premise underlying the application of analytical procedures is that plausible relationships among data may reasonably be expected to exist and continue in the absence of conditions to the contrary.

(2 marks)

Going Concern Evaluations

Going-concern assessment is to "evaluate whether relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued.

(2 marks)

(b) **Written representation letter - reliability and need for other evidence**

- Normally, the written representation letter is drafted by the auditor, but it is written on the client's headed notepaper and signed by the directors. Alternatively, the letter may be written by the directors, but contain matters requested by the auditors.
- As audit evidence, it is written evidence (which is better than oral evidence) but it is evidence from within the company and thus it is not as independent a source of evidence as most other evidence obtained by the auditor (e.g. third party evidence and evidence obtained directly by the auditor).
- Arguably, evidence from the directors may be less reliable than evidence from the company's employees, as there may be more pressures and motivation for the directors to mislead the auditor (e.g. because of external pressures on them to produce good results). However, statements from the directors may be more reliable than those from employees, as they will have a better understanding of the situation and, in their position as directors, should be aware of the importance of the statements they

make to the auditor. Under most systems of company law, a company director commits an offence if he knowingly or recklessly makes a misleading, false or deceptive statement to the auditor. The directors should be aware of such provisions and this should make them cautious of what they say to auditors, particularly when it is later put down in writing.

- In some relatively immaterial areas, the auditor may accept the directors' statements without seeking further evidence. However, in most situations, the auditor should attempt to find alternative evidence to support (or refute) the directors' representations. Thus, in determining whether all sales income has been recorded in the financial statements, the auditor should obtain other evidence and would probably be negligent if the directors' representations were relied on entirely.
- In addition, the auditor must consider whether the directors' representations are consistent with the other information he has obtained. If this evidence is consistent, then the directors' representations will reinforce the evidence obtained by the auditor. However, if the other evidence obtained by the auditor is not consistent with the directors' representations, the auditor should be extremely careful before accepting what the directors say. The auditor should seek further evidence to either refute or confirm the directors' statements. If there is a material difference between the other evidence and the directors' representations, the auditor will probably have to qualify his audit report.

(5 marks)

(c) If the directors refuse to sign the written representation letter

- The auditor should ask the directors why they are refusing to sign the letter. The auditor should explain the following:
- It is a normal procedure for the auditor to draft the written representation letter and ask the directors to sign it.
- The audit opinion will be based mainly on audit work which does not involve representations from directors. However, directors' representations are helpful in providing further evidence that the financial statements are free from material error.
- Company law requires the directors to sign the financial statements. This provides evidence that the directors believe the financial statements are free from material error. Thus, this is similar to the directors signing the written representation letter.
- If the directors are still unwilling to sign the letter, the auditor should ascertain which paragraphs they are unhappy about. The wording of these paragraphs should be discussed to see if alternative wording can be agreed. However, it would probably be unacceptable to remove the paragraphs where the directors confirm completeness of income or the validity of expenditure.
- If the directors continue to refuse to sign the letter, the auditor should be put on his guard that the directors may be hiding something. Both of these areas create strong suspicion of potential fraud. Cash sales could be misappropriated, and the directors could be putting personal expenses through as business expenditure.
- The auditor should therefore carry out additional audit procedures in the areas over which the directors are refusing to sign.

- If these additional procedures fail to provide adequate evidence then:
- the audit report should be qualified on the grounds of a scope limitation, and
- the auditor should consider the reliability of other representations obtained from the directors during the course of the audit.

(5 marks)

(Total: 20 marks)

QUESTION FIVE

a) (i) **Patents**

- A register should be maintained giving a description of each patent, its cost, depreciation and net book value. Test a sample of the patents from the register against patent documents.
- Ensure patent documents are stored in a secure place.
- Vouch additions in the year (or a sample) to purchase documentation, including authorisation in the board minutes, or evidence of approval by a senior company official. If the patent originates from the company itself, vouch to filing documentation.
- Agree costs of the company's own patents to the documentation supporting the direct costs of application. All other related costs should be treated as research and development.
- Ensure that patents are written off over their useful lives, and that the rates used are reasonable.
- Check (a sample of) the amortisation calculations.
- Consider whether the useful lives being used are reasonable.
- Consider whether there are any business circumstances which might necessitate the need for an impairment write off.
- Ensure any impairment has been correctly dealt with.

(Any 5 points for 5 marks)

(ii) **Research and development**

- Examine supporting documentation (e.g. invoices, timesheets) to ensure that any amounts capitalised are development costs, and comply with the strict criteria laid down in IAS 38 i.e.
- probable economic benefits
- intention to complete the asset and use or sell it
- resources exist to complete the project
- ability to use or sell the asset
- technical feasibility of completing the asset
- expenditure can be measured reliably.
- To verify these costs, consider:

- ✓ project evaluation reports
- ✓ whether an independent assessor should be consulted if the information is of a highly technical nature
- ✓ ensure that any non-current assets used for the purposes of research and development have been capitalised and depreciated as required by IAS 16.

(Any 5 points for 5 marks)

b)

Compliance audit

The definition of compliance audit builds on the definition of public sector audits with a specific focus on assessing compliance with criteria derived from authorities. Authorities are the parliamentary decisions, laws, legislative acts, established codes or norms, and agreed-upon terms that a public sector entity is expected to comply with in the execution of its roles and responsibilities. In compliance auditing, you identify a subject matter, which is the area of the entity's work that the audit will address, for example the entity's procurements, their reporting on non-financial information, and their adherence to the freedom of information law or the staff's compliance with their codes of conduct.

Compliance audit is the independent assessment of whether a particular subject matter is in compliance with applicable authorities identified as criteria. As auditors, we assess whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity.² Auditors performing compliance audit look for material deviations or departures from criteria that could be based on laws and regulations, principles of sound financial management, or propriety, which is the observance of the general principles governing sound financial management and the conduct of public officials.

(3 marks)

Performance audit

Performance auditing is an independent, objective and reliable examination of whether the government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement.

Performance audit's 3 E's seek to examine, for example, if the government is using resources economically while handling a subject matter; if the ratio of input to output is optimal in government operations (efficient); and if the government entity is able to deliver the intended result and impact on society (effective).

(3 marks)

c) **The mandate for public sector audit is vested exclusively in the Auditor-General and Article 187 of the Constitution provides the mandate of the Auditor General as follows:**

1. The public accounts of Ghana and of all public offices, including the courts, the central and local government administrations, of the Universities and public institutions of like nature, of any public corporation or other body or organization established by an Act of Parliament shall be audited and reported on by the Auditor-General.
2. The Auditor-General or any person authorised or appointed for the purpose of the audit by the Auditor-General shall have access to all books, records returns and other documents relating or relevant to those accounts.
3. All the public accounts of Ghana and of all other persons or authorities referred to in clause (2) of article 187 shall be kept in such form as the Auditor-General shall approve.
4. In the performance of his functions under this Constitution or any other law the Auditor-General shall not be subject to the direction or control of any other person or authority;
5. He may disallow any item of expenditure which is contrary to law and surcharge:
(i) the amount of any expenditure disallowed upon the person responsible for incurring or authorising the expenditure; or (ii) any sum which has not been duly brought into account, upon the person by whom the sum ought to have been brought into account; or (iii) the amount of any loss or deficiency, upon any person by whose negligence or misconduct the loss or deficiency has been incurred.

(Any 4 points for 4 marks)

(Total: 20 marks)