NOVEMBER 2024 PROFESSIONAL EXAMINATIONS
ADVANCED AUDIT & ASSURANCE (PAPER 3.2)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

In the November 2024 diet, candidates were expected to demonstrate a strong understanding of ethical issues, audit procedures, audit risk, responsibility relating to other information, attestation engagement, direct reporting engagement, the role of the audit committee, and regulatory requirements related to anti-money laundering; covering sections A to H of the syllabus. By meeting these expectations, candidates can demonstrate their competence and professionalism in the field of auditing.

The preparedness of candidates for the Advanced Audit and Assurance examination has been a concern. Some candidates appeared to lack a thorough understanding of audit and assurance concepts, suggesting inadequate preparation before the examination.

Overall, candidates are encouraged to study the syllabus and study materials, develop their analytical and critical thinking skills, and ensure a deeper understanding of auditing principles and standards. Candidates are encouraged to practice the application of knowledge to real-world scenarios to improve their ability to apply theoretical concepts to practical scenarios.

STANDARD OF THE PAPER

The paper demonstrated a good balance of theoretical and practical questions. The standard of the paper was comparable to that of previous diets. The questions covered every aspect of the syllabus and the marks allocation was in line with the syllabus weightings. The amount of work required to answer each question was commensurate with the marks allotted to the questions.

PERFORMANCE OF CANDIDATES

The performance of candidates was better than the previous diet although performance was below average. Performance in November 2024 was 48.78% compared to that of July 2024 of 42.48%.

NOTABLE STRENGTHS AND WEAKNESS OF CANDIDATES

- Some candidates showed a strong understanding of advanced auditing and assurance concepts, principles and standards.
- Some candidates provided clear and concise answers.
- Some candidates were able to apply theoretical concepts to the practical scenarios in the question

Candidates, however, showed weaknesses in the following:

- Candidates lacked the ability to apply theoretical concepts to practical scenarios
- Inadequate analysis and evaluation of audit risks and procedures
- Limited understanding of international auditing standards and regulatory requirements
- Inability to identify and address ethical dilemmas
- Some wrote wrong question numbers for answers provided. Some did not write the question numbers.
- Some candidates' handwriting was so bad that it took a lot of time to make up what had been written.
- Many candidates over elaborated on answers without considering the marks allotted to the question.

QUESTION ONE

a) You are the Audit Partner of a mid-sized audit firm, Amoah Sonko and Associates. One of your major clients, Kudi LTD (Kudi), has approached you for a significant audit engagement. Kudi has been experiencing rapid growth and plans to get listed on the Ghana Alternative Market within the next year. During preliminary discussions, the Managing Director of Kudi, a friend, promised you a bonus if the audit report is completed quickly and is favourable, highlighting the company's strengths.

In the course of the audit of Kudi, you came across series of unusual financial transactions. These included large intercompany loans with its sister companies, other significant related-party transactions with the directors, and an unusually high volume of sales recorded few days towards the end of the financial year. Upon further investigation, your team found discrepancies in inventory records and evidence of potential non-compliance with revenue recognition standards. The Finance Manager insists these transactions are legitimate and necessary for the company's rapid growth.
Additionally, you noticed that Kudi was involved in a high-profile legal battle with a major competitor, which was not fully disclosed in the financial statements. The lawyer for Kudi insists that you omit this information from the audit report, arguing it would damage the company's reputation and its plans to get listed on the Ghana Alternative Market.

Required:

i) Identify **TWO** potential ethical issues in the scenario and explain the potential impact on your professional conduct. **(3 marks)**

ii) Identify the steps you should take to address the conflict of interest presented by the Managing Director's offer. **(3 marks)**

iii) Discuss the potential sanctions for accepting the Managing Director's offer and providing a favourable audit report without proper verification. **(2 marks)**

iv) Evaluate the impact of the undisclosed legal battle on Kudi LTD's financial statements and the upcoming initial public offer. **(2 marks)**

b) You are a Senior Auditor at Dromo Audit Firm, assigned to audit a new client, Afroherb Pharma LTD, a multinational pharmaceutical company. During the initial stages of engagement planning, you discovered that Afroherb Pharma LTD operates in multiple jurisdictions, including Ghana, Liberia, Sierra Leone and The Gambia. The parent company is in Ghana, and the companies in the other jurisdictions are all subsidiaries. All these jurisdictions have significant regulatory requirements and operational difficulties. The company has recently expanded its product line to include vaccine production following the introduction of The Vaccine Centre in Ghana. The production of vaccines is also subject to stringent regulatory reviews.

Required:

i) State **FOUR** audit procedures you could perform in relation to the consolidation of the financial statements of Afroherb Group. **(4 marks)**

ii) Identify **TWO** specific risks associated with auditing Afroherb Pharma LTD, particularly in relation to its expansion into vaccine products. How should these risks be managed? **(4 marks)**

iii) State **TWO** problems associated with the planning of group audits. **(2 marks)**

(Total: 20 marks)

QUESTION TWO

Ecowud Co. LTD (Ecowud) is a sustainable goal-oriented company. They develop, manufacture and sell plywood made from rice husk and plastic waste. The company has a wide customer base from construction companies and furniture manufacturers across Ghana and West Africa.

You are the Audit Manager of Adomako & Associates and you are planning the audit of Ecowud for the year ended 31 December 2023. You and the Audit Engagement Partner have attended a planning meeting with the Finance Manager at Ecowud.

You are reviewing the initial meeting notes to enable you develop the audit strategy and plan. The following were captured:

i) Revenue for the year was forecast at GH¢32 million. During the year the company spent GH¢3.5 million in developing new types of plywood. Some of these are in the early stages of development whilst others are nearing completion. The Finance Manager communicated his intention to capitalise the full GH¢3.5 million spent on developing the new types of wood because he has confirmed that all projects are likely to be successful. Ecowud manufactures the plywood once the development stage has been completed.

ii) The policy of the company is to use a standard costing method to value inventory. Ecowud has never updated its standard costs since it started using this policy. Ecowud has warehouses for finished goods located in Ghana and across West Africa. Most of the warehouses are third-party warehouses and they are rented premises.

iii) The Information Technology (IT) Manager developed a new accounting software and Ecowud started the use of this software in August. The old software and the new software were not to run in parallel as it was felt that this would be burdensome for the accounting team. Two months after the introduction of the software, the IT Manager resigned from the company and a new manager has been recruited but the new manager's work starts in January 2024.

iv) Ecowud restructured its finances and raised GH¢2 million through the issue of shares at a premium and GH¢3.5 million through a long-term loan. There are bank conditions attached to the loan, the main one relating to a minimum level of total assets. If these conditions are breached, then the loan becomes immediately repayable.

v) The company has a policy of revaluing land and buildings, and the Finance Manager has announced that all land and buildings will be revalued at the year-end.

Required:

a) In relation to the above scenario, identify **FIVE** audit risks from Ecowud Co LTD and for each risk explain how the auditor should respond to it. **(15 marks)**

b) Describe **FIVE** audit procedures to obtain sufficient appropriate evidence in relation to the long-term loan of GH¢3.5 million. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

The audit of Akati PLC's financial statements for the year ended 31 December 2023 is nearing completion and the auditor's report is due to be signed next week. Akati PLC manufactures parts and components for the aviation industry. The company is a listed entity on the Ghana Stock Exchange and is also a subsidiary of a Company listed on a foreign Stock Exchange. The company is under pressure from the Ghana Stock Exchange to comply with ***IFRS S1: General Requirements for Disclosure of Sustainability-Related Financial Information***. The parent company has sent a notice that the foreign stock exchange will not accept Consolidated Financial Statements in addition to the component financial statements that do not comply with IFRS S1.

The Engagement Partner sent you an e-mail as below:

To: Audit Senior Manager
From: Engagement Partner
Subject: Review of annual report
Status: Urgent

Hello Mr. Kafui,

Greetings to you and the entire audit team.

As you are aware, we are about to finalise the Audited Financial Statements of Akati PLC. Due to consolidation requirements, the Directors have prepared a draft annual report which contained the following disclosures to comply with IFRS S1:

- *the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities;*
- *the entity's strategy for managing sustainability-related risks and opportunities;*
- *the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and*
- *the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.*

The outlook section of the chairman's report contained a statement that the revenue of the company has grown significantly by 10% over the last year.

The draft revenue are as follows:

	2023	***2022***
	GH¢	GH¢
Revenue	*1,600,000*	*1,500,000*

All audit adjustments have been mutually agreed with the clients. Your review of the Board's minutes signed by the Chairman confirmed that the company is yet to comply with IFRS S1 when the regulator raised issues about compliance with the standards. The Chairman stated that the auditor's report is unmodified with respect to the annual report.

Required:

a) In line with ***ISA 720: (Revised) The Auditor's Responsibilities Relating to Other Information***, explain the auditor's responsibilities in relation to the other information presented with the audited financial statements and comment on the matters arising from the extract from the Chairman's statement. **(12 marks)**

b) Assuming that no changes are made to the Chairman's statement, describe the implications for the completion of the audit and the auditor's report. **(8 marks)**
(Note: detailed knowledge in IFRS S1 is not a requirement to answer this question).

(Total: 20 marks)

QUESTION FOUR

a) The Minister for Finance on December 5, 2022 invited holders of domestic bonds to voluntarily exchange GH¢137.3 (U$14.3) billion of the bonds and notes including E.S.L.A and Daakye Bonds for a package of 12 new eligible domestic bonds.

Required:
As Director of Audit at the Ghana Audit Service, describe how you would plan and execute an audit of the implementation of Ghana's domestic debt exchange programme as a form of CPD for a section of staff of the Ghana Audit Service. **(10 marks)**

b) Compliance audit is crucial in State Audits to ensure a multiple of reasons. It indicates whether the subject matter being considered follows certain criteria. It could be any of the following:

1. Parliament decision
2. The Law
3. Government Policy
4. Established agreed terms. etc.

Compliance audit can be ***Attestation Engagement or Direct Reporting Engagement***.

Required:

i) Evaluate these **TWO** engagements. **(4 marks)**
ii) Discuss common areas that will be covered by the reports of the two engagements. **(6 marks)**

(Total: 20 marks)

QUESTION FIVE

a) An Audit Committee is a sub-group of a company's Board of Directors *responsible for the oversight of the financial reporting and disclosure process*. The duties and responsibilities of the Audit Committee greatly contribute to good corporate governance practices of a company.

Required:
Explain **FOUR** roles of an Audit Committee in compliance with good corporate governance practices. **(10 marks)**

b) Lamsey Jewelers is a family-owned business specialising in high-end jewellery and is located at Dunkwa-On-Offin in the Central Region of Ghana. The company sources gold from various suppliers in the small-scale mining space. Recently, the Minerals Commission received anonymous tips suggesting that Lamsey Jewelers may be involved in laundering money through its operations. The authorities suspect that the jewellery business could be used to conceal the origins of illicit funds by purchasing and selling gold.

To investigate these suspicions, the regulatory authorities have appointed Baba Yara and Associates, an independent auditing firm, to conduct a thorough review of Lamsey Jewelers' operations and financial transactions. During the audit, Baba Yara and Associates discovered that Lamsey Jewelers has been accepting large cash payments for custom jewellery orders without conducting proper due diligence on the customers. Several transactions involving cash payments exceed typical retail amounts, raising suspicions of potential money laundering.

Required:

i) Discuss the key legal and regulatory requirements in Ghana related to anti-money laundering relevant to Lamsey Jewelers. **(5 marks)**

ii) Discuss the obligations placed on professional firms such as Baba Yara and Associates in relation to money laundering. **(5 marks)**

(Total: 20 marks)

SOLUTION

QUESTION ONE

a)

i) **Potential ethical issues in this situation**

- Conflict of interest due to personal relationship with the Managing Director.
- Accepting inducements to alter audit results.
- Integrity and objectivity would be potentially compromised by the Finance Manager's insistence and the Lawyer's pressure.
- Non-disclosure of critical information.

1 mark for each ethical issue identified from the scenario

(2 marks)

Impact: Compromising professional integrity and objectivity can lead to loss of credibility, legal consequences, and damage to the audit firm's reputation. As an audit firm, there is a need to maintain independence in the conduct of an audit engagement. The relationship between the audit partner and the Managing Director might cast doubt on the audit's independence.

(1 mark)

ii) **Steps to take to address the conflict of interest**

- Decline the bonus offer to maintain objectivity.
- Disclose the offer to your firm's ethics committee.
- Ensure all audit team members know the potential conflict and document all actions taken to address it.
- Engagement partner to be replaced when the engagement is accepted
- Withdraw from the engagement

1 mark for each step identified to address conflict of interest

(3 marks)

iii) Potential sanctions for accepting the Managing Director's offer and providing a favourable audit report without proper verification

- Legal consequences could include regulatory sanctions. As the company prepares to be listed on the Ghana Alternative market, the Securities and Exchange Commission or the Institute of Chartered Accountants, Ghana could impose sanctions on the audit firm if the information comes to light. Sanctions include being blacklisted from providing assurance services to any listed company.
- Potential Lawsuits: The audit firm might be sued by shareholders and other market operators who rely on the information provided in the audit report.
- Potential Disciplinary actions: The ICAG ethics committee may take disciplinary action against the audit firms and the partners involved in the engagement. Including demotion and suspension of licence.
- The firm could face significant fines and damage to its professional reputation- The findings of the ethics committee might be reported in the annual report of the Institute of Chartered Accountants, Ghana. Also, the SEC might cause a publication of the failures in the audit in national newspapers. This will significantly affect the reputation of the firm and its partners.

1 mark for each sanction identified

(2 marks)

iv) The potential impact of the undisclosed legal battle on Kudi LTD's financial statements and the upcoming IPO

- There should be full disclosure of contingent liability
- Non-disclosure could mislead investors, resulting in legal and regulatory consequences.
- Accurate disclosure is critical for transparency and maintaining investor confidence.
- Impact of the undisclosed legal battle on the financial statement could result in modification of the audit report due to material misstatement. Undisclosed contingency in financial statement could result in material and pervasive material misstatement which could result in giving an adverse opinion

1 mark for each potential impact of the undisclosed legal battle on Kudi LTD's financial statements and the upcoming IPO

(2 marks)

b)

i) **Four audit procedures that could be performed in relation to the consolidation**

- Clerical Accuracy: Confirm that the figures have been transferred accurately from the financial statements of the components to the consolidation schedules. Check the arithmetical accuracy of all consolidation calculations, such as the consolidation of total balances and total transaction values.
- Status of Investment: Confirm that Afroherb Pharma LTD Has correctly classified investments as subsidiaries in accordance with standard accounting practice. Confirm that the appropriate treatment has been adopted for each of these classifications of investment in the group accounts.
- Changes in the group: If any of the subsidiaries were acquired within the year, confirm fair values, the calculation of purchased goodwill and accounting treatment in accordance with IFRS 3 and any other relevant standards. Check that the correct accounting treatments of items are applied in the consolidated income statement/statement of comprehensive income and the consolidated statement of financial position.
- Consolidation adjustment: Reconcile the intercompany transactions and balances. Confirm the inter-company balances. Check the adjustments for unrealised profit calculations.

1 mark for each audit procedure stated that is in relation to the consolidation

(4 marks)

ii) Specific Risks and Audit Approach.

Expansion into vaccine products: Risks include compliance with regulatory approvals, research and development costs, market acceptance, and potential intellectual property disputes. The audit approach should include assessing management's forecasts and assumptions, reviewing regulatory filings, and validating revenue recognition methods for vaccine products.

Regulatory Environment: Consider risks related to changes in healthcare policies, pricing regulations, and product safety standards across different jurisdictions. Implement procedures to verify compliance with local laws and regulations applicable to pharmaceutical manufacturing and distribution.

1 mark for each specific risks associated with auditing Afroherb Pharma LTD,
1 mark for how each of the risk identified should be managed

(4 marks)

iii) Problems associated with the planning of group audits.

- Groups may include a large number of companies. The companies under this group are foreign subsidiaries that report in their own currency and perhaps use their national accounting practices to prepare their financial statements rather than International Financial Reporting Standards.
- Some companies in the group may have a different year-end accounting date from the other companies
- It will be necessary to make audit adjustments that are made to the financial statements of individual group companies, for consolidation purposes.
- Some group companies may be audited by an audit firm that is not the auditor of Afroherb Pharma LTD.

1 mark for each problem stated that is associated with the planning of group audits relating to the information in the scenario

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Requirement (a)

Generally, candidates scored high marks on this question. Some of the candidates were able to identify ethical issues and provided steps that could be adopted to address the conflict of interest presented in the scenario and discussed the sanctions and impact of the undisclosed legal battle in the scenario. Other candidates gave generic answers and did not tailor their answers to the information in the scenario. The majority of the candidates who identified the ethical issue failed to explain the impact of this ethical issue. Most candidates were able to discuss the potential sanctions for accepting the managing director's offer and providing favourable audit report without proper verification. However, majority of candidates could not evaluate the potential impact of the undisclosed legal battle on Kudi LTD's financial statements and the upcoming IPO.

Candidates who provided detailed answers and related their answers to the information in the scenario attracted full marks. Candidates who gave generic answers and only stated points attracted half the mark.

Candidates must study and practice questions to ensure that detailed knowledge of the IESBA codes can be applied and used to answer practical scenario questions

Requirement (b)

Generally, candidates performed poorly on this question. The majority of the candidates could not identify risk relating to the audit of Afroherb Pharma LTD. Candidates who were able to identify the risk failed to explain how the risk could be managed. Most candidates just stated compliance risk without explaining how it is associated with the audit. Again, the majority of candidates could not state the audit procedures that could be performed in relation to the consolidation. Majority of the candidates could not identify specific risks associated with auditing Afroherb Pharma LTD, how each of the risk identified should be managed.

Most candidates produced answers which were not tailored to the scenario. Candidates are required to identify what is significant in the context of the specific scenario and not give general answers. Most candidates did not attract the full mark due to generic answers.

Candidates are encouraged to gain an understanding of ISA 600 (Revised) Specials Considerations – Audits of Group Financial Statements (Including the Work for Component Auditors).

QUESTION TWO

a)

<table>
<tr><th>Audit risk</th><th>Auditor's response</th></tr>
<tr><td>1. The finance manager wants to capitalise GH¢3.5 million development expenditure. IAS 38 specifies the conditions that must exist for development costs to be capitalised. The conditions are:
Intention to complete the development and either use or sell the developed item
Technical feasibility of completing the development and the ability of the entity to use the developed item or sell it
Ability to create future economic benefits
Availability of technical, financial and other resources to complete the development
Ability to measure the costs attributable to the intangible asset.
The audit risk is that development costs have been capitalised when not all of the criteria for capitalisation have been met. This will mean assets and profits are overstated.</td><td>The auditor should obtain audit evidence to confirm that each criterion has been met.
The auditor should look at the test results of the project to date.
The auditor should look for evidence from market research about the likely demand for their product.
The auditor can look at actual sales since the product launch and discuss with management whether these appear to support the estimated amortisation period for the development costs.
An analysis showing development costs for each product should be obtained and reviewed.
Testing should be carried out to ensure the technical and commercial feasibility of each product and, where it cannot be proven that future economic benefits will result from the product developed, the related costs should be expensed.</td></tr>
<tr><td>2. Ecowud Co LTD uses standard costing to value inventory. According to IAS 2, the standard cost may be used for the measurement of cost, provided that the results approximate the actual cost. The company has never updated its standard cost; this may lead to a risk that standard costs are out of date. If they are, this could mean inventory is over- or undervalued in the statement of financial position.</td><td>Standard costs used for inventory valuation should be compared to actual costs for an appropriate sample of inventory items. Any significant variations should be discussed with management to gain evidence that the valuation is reasonable and that inventory is fairly stated.</td></tr>
<tr><td>3. The new software was not run in parallel with the old one, this poses a risk that errors that may occur during the changeover will not be highlighted, and all areas of the financial statements could potentially be misstated.</td><td>The new system will need to be fully documented by the audit team including relevant controls.
Testing should be performed to ensure the closing data on the old system was correctly transferred as the opening data on the new system, and that transactions have not been duplicated on both systems and therefore included twice.</td></tr>
<tr><td>4. The warehouses storing finished goods are rented and belong to a third party. There is the risk of the existence and completeness of inventory quantities held in these locations</td><td>Obtain sufficient and appropriate audit evidence to confirm the quantities of inventory held in these locations to verify existence and completeness.</td></tr>
</table>

	• Attend inventory counts, to ensure that inventory quantities have been confirmed across all locations.
5. The IT manager who developed the software left the company two months after it was introduced. The new manager will report to work in January. There was no IT manager to supervise the software. **The risk is that errors may go undetected due to a lack of personnel who have knowledge or experience of the software. This could lead to misstatements in the financial statements.**	Ascertain from the finance manager how this risk of misstatement is being mitigated. The audit team should be on the lookout for evidence of errors, especially when testing transactions which occurred between August and December
6. GH¢2 million shares of equity finance and GH¢3.5 million long-term loans have been raised during the year. **There is the risk that equity finance will be allocated incorrectly between share capital and share premium, and the loan may not be properly presented as a non-current liability.** Insufficient Disclosures.	Ensure there is a split of the equity finance and that total financing proceeds of GH¢5.5 million were received. Disclosures relating to equity and loan finance should be reviewed to ensure compliance with relevant IFRSs. The fundamental principle of IAS 32 is that a financial instrument should be classified as either a financial liability or an equity instrument according to the substance of the contract, not its legal form, and the definitions of financial liability and equity instrument.
7. The long-term loan has conditions attached to it. **There is the risk that these conditions may be breached** which will require the repayment of the loan and the classification of the loan as a current liability. If the company does not have sufficient cash to repay the loan, **the going concern status of the company could be threatened.**	Review (or reperform) covenant calculations to identify any breaches. If there are any Assess the likelihood of the bank demanding repayment and the potential impact on the company. Maintain professional scepticism in areas that could be manipulated.
8. The company has a policy of revaluing land and buildings, and the finance manager has announced that all land and buildings will be revalued at the year end. **The revaluation surplus or deficit is likely to be material if the revaluation is not carried out and recorded in accordance with IAS 16 Property, Plant and Equipment, non-current assets may be under- or overvalued.**	Review the reasonableness of the valuation and assess the competence, experience and independence of the individual performing the valuation. The surplus/deficit should be recalculated to ensure that land and buildings are included at a reasonable amount in the statement of financial position.

2 marks for each identified risk from the information provided in the question and well described
1 mark for each response well described
Maximum of 10 marks for risks and 5 marks for responses

b) Audit procedures to obtain sufficient appropriate evidence in relation to the long-term loan of GH¢3.5 million.

- **Substantive analytical procedures**
  Substantive analytical procedures can be performed to gain additional comfort over the calculation of loans and borrowings using the expected repayment amounts and contractual interest rates. The auditor can also compare the current year with their expectations and

with the previous period to gain additional comfort on the validity of the figures being recorded within the financial statements.

- **Tests of detail**
  Terms of repayment
  Many bank loans and overdrafts repaid over extended terms of many years are, in fact, often technically repayable on demand. Financial instruments, including loans, need to be accounted for in accordance with the contractual terms. Accordingly, loans should be treated as falling due on the earliest date that a lender could require repayment if all available options and rights were exercised. An incorrect analysis can have a material impact on certain ratios, which commonly form part of many banking covenants. If broken, such covenants can result in the withdrawal of banking facilities and the demand for immediate repayment. It is therefore important that such balances are correctly analysed in the financial statements.

- **Below market rate loans**
  Where a loan is repayable after more than one year but is not at a market rate of interest, then that loan should be measured at amortised cost using a market rate of interest for an equivalent loan (although there is an exemption for small companies in relation to loans made to the company by a director or directors' close family, as such loans can be measured at the transaction price with no need to impute a market rate of interest).

  In practice, establishing a market rate may prove challenging, both for the company and the auditor, especially if the loan was first made many years ago, since the effective interest rate should be established at inception of the loan. Often the company will have borrowed from a related party because it would have struggled to borrow on market terms. In these situations, arriving at a market rate will need some work and investigation. This could involve looking back at historic interest rates and seeking input from one or more lenders to establish an interest rate which is, in all material respects, a market rate. In the most complex scenarios, specialist advice may be needed to calculate an appropriate rate.

- **Classification**
  The auditor should either calculate or check the allocation between long-term and short-term loans. Where the amount is material, an incorrect allocation could have a significant impact on the view given by the financial statements.

- **Confirmations**
  External confirmation for all material loans and borrowings is the best audit evidence. The auditor should seek confirmation of the balance outstanding at the balance sheet date, repayments of principal made during the course of the period and interest paid during the period. The auditor should also ask for confirmation of accrued interest at the balance sheet date, particulars of any security given and of the terms of repayment. This information ensures the liabilities are recorded appropriately in the financial statements and there is correct disclosure of such matters as security.
- **Compliance**
  Many bank loans and other financial instruments which are not repayable on demand have covenants built into the terms and conditions. Compliance with such covenants is intended to help reassure the lender of the borrower's ability to repay the capital advanced.

1 mark for each audit procedure to obtain sufficient appropriate evidence in relation to the long-term loan of GH¢3.5 million well described.

(5 marks)

(Total = 20 marks)

EXAMINER'S COMMENTS

Requirement (a)

The majority of the well-prepared candidates scored the points apart from a few who deviated from making the points. Also, many candidates failed to address the second part of the question which relates to the response the auditor should make to address the audit risk hence did not get the mark for that. Candidates who scored low marks were due to failure to explain how the auditors should respond to the risk, failure to identify the risk and its impact, and failure to relate the answer to the scenario.

The majority of the candidates lacked an in-depth understanding of the financial reporting standard especially *IAS 38: Intangible assets, IAS 2: Inventories, IAS 32: Financial instruments - Presentation*, and *IAS 16: Property, Plant and Equipment* that relate to the information in the scenario. Candidate should know that Advanced Audit and Assurance requires an in-depth understanding of IFRSs.

Candidates should note that stating just the answers without relating to the scenario does not attract full marks. Also writing answers which are not focused on the requirement does not attract marks. Candidates must study well the audit procedures and audit risk and make time to revise well before the exams. Candidates are also encouraged to read published auditor's reports of listed companies to appreciate real-world explanations by auditors of why something was a specific risk to a specific client. This will help them develop their analytical skills and be able to apply theories to practical scenarios.

Requirement (b)

Candidates were required to describe five audit procedures they will employ to obtain sufficient appropriate evidence in relation to the long-term loan in the scenario. The question was straight forward, hence it was well answered by the candidates but a majority of the candidates failed to relate the answer to the scenario and gave generic answers. Here the requirement was clear, "Describe FIVE audit procedures to obtain sufficient appropriate evidence in relation to the long-term loan of GH¢3.5 million". Generic answers attracted half of the mark. A candidate who focused their answers on the requirement and related their questions to the scenario obtained the full mark.

QUESTION THREE

a) **Auditor's responsibility for other information presented with the financial statements**

ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* requires the auditor to read other information, defined as financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report.

One of the important purpose of reading the other information is to determine if there are misstatements of facts.

Secondly the purpose of reading the other information is to consider whether there is a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit. If the auditor identifies that a material inconsistency appears to exist, or becomes aware that the other information appears to be materially misstated, the auditor should discuss the matter with management and, if necessary, perform other procedures to conclude whether:

- A material misstatement of the other information exists;
- A material misstatement of the financial statements exists;
- Misstatement of fact or
- The auditor's understanding of the entity and its environment needs to be updated.

The auditor is expected to read the other information, he does not audit the other information and does not express an opinion covering the other information.

Matters identified from the chairman's statement

In this case, the chairman's statement refers to disclosures in the annual report to the effect that the company has complied with IFRS S1. However, there is evidence in the signed board minutes by the chairman that the company is yet to comply with IFRS S1. This disclosure might be due to pressure from the regulator and the parent company. This constitute misstatement of fact in the annual report.

Also, the Chairman stated that the revenue of the company grew by 10% over the last year. However, from the draft revenue figures where all adjustments have been agreed, the growth is 6.67% and therefore this information constitute material inconsistencies with the financial statements.

The chairman has also made inappropriate reference that the auditor's report on the annual report is unmodified implying that the auditor's report covers other information not subject to audit. This is false as the auditor's report covers only the audited financial statements.

2 marks for each auditor's responsibilities in relation to the other information presented with the audited financial statements well explained. Maximum 4 points. 2 marks each on the matters identified from the extract from the Chairman's statement. Maximum 2 points

(12 marks)

b) **Implications for completion of the audit and the audit report**

The auditor should discuss with management information in the statement which appears inaccurate or inconsistent.

In the case of the incorrect disclosure relating to IFRS S1, the auditor should seek further information to support the minutes. Example the names of the team that helped with the adoption of IFRS S1, the date of adoption, the date for completion etc.

Following these investigations and discussions, the auditor should then request that any information which is inaccurate, inappropriate or inconsistent is removed or amended in the chairman's report.

If management refuse to make the changes then the auditor's request should be escalated to those charged with governance. If the issue remains unresolved then the auditor should take appropriate action, including:

- Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the issues in the auditor's report; or
- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Audit report

If the other information remains uncorrected the auditor would use the Other Information section of the auditor's report to draw the users' attention to the misstatements in the chairman's statement. This paragraph would include:

- A statement that management is responsible for the other information;
- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
- A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA; and
- A statement that describes the uncorrected material misstatement of the other information.
- As the inconsistency is in the chairman's statement rather than the audited financial statement the audit opinion is not modified as a result.

2 marks each on the implications for the completion of the audit and the auditor's report each well explained. Maximum 4 points.

(8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Requirement (a)

Most candidates deviated from the requirement. Candidates lacked knowledge in *ISA 720: (Revised) The Auditor's Responsibilities Relating to Other Information* which requires the auditor to read other information, to determine if there are misstatements of facts and to consider whether there is a material inconsistency between the other information and the financial statements or between the other information and the auditor's knowledge obtained in the audit and the steps the auditor should take if the auditor identifies that a material inconsistency appears to exist, or becomes aware that the other information appears to be materially misstated.

Candidates scored very low in this question with majority scoring zero or below average (10 marks).

Candidates should know how to answer questions by connecting preambles to answers. Generally, candidates' responses to this question was substandard. Candidates are encouraged to prepare very well by covering the syllabus gain more knowledge in the ISAs.

Requirement (b)
Most candidates could not answer this question. Candidates deviated from the requirement and were unable to differentiate between other information and other matter in the audit report. Most candidates did not know that the auditor does not audit the other information and does not express an opinion covering the other information rather if the other information remains uncorrected the auditor would use the Other Information section of the auditor's report to draw the users' attention to the misstatements in the chairman's statement.
Those who attempted to answer did not relate their answers to the information in the scenario hence majority of the candidates scored below average.

QUESTION FOUR

a)

Planning

- Understand what a debt exchange programme is – by reading the memorandum of the Debt Exchange programme authored by the minister for finance and related literature on the subject. Noting the experiences of Russia, Ecuador, Greece and other countries.
- Determine the institution which was central to the transaction, the committee handling the transaction, the coordinating organizations, noting the qualifications and experiences and exposure of the key personnel involved the transaction.
- Familiarizing yourself with the analysis of the transaction and other related material from the committee and interview them.
- Checking the rules and swap ratios as planed and the rationale behind them
- Considering control environment of the institutions involved to establish their discipline and resourcefulness to ensure the project will be painstakingly executed.
- Considering risk of non-capture of information and non-participation of intending groups, and the cost to government and the respondents, the cost to contemporary implementing countries, Greece and others

1 mark for each point on audit plan in line with the implementation of Ghana's domestic debt exchange programme well explained. Maximum 4 points

Conducting the Audit

- Interview the important personalities and the committee handling the transaction, including the Minister of Finance and the Governor of Bank of Ghana to understand the methodology, appropriateness and implementation of the exercise
- Comparing their briefs and noting differences and seek clarifications
- Check compliance with regulation - ensure the programme agrees with all necessary relevant laws and regulation, both domestic and international.
- Check documentation and Approval - ensure that all significant agreements including any modifications are properly documented and approved by relevant authority.
- Check stakeholder's communication and engagements - Check all stakeholders and investors are adequately informed about the terms and implications of the debt exchange.
- Check the category of debts and the list on each category earmarked for the exchange; ascertaining the initial list and the deviations and examining the deviation. Substantiate the figures with the final published report.
- Statistically sample some of the details on the list and trace them to bond register, checking, name, amount, date of maturity dates etc., to confirm the records
- Check global totals of the category of bond amounts to that of the register to confirm whether they agree.
- Check whether the old bonds were accurately transferred to the new bond list in an amount, rate and maturity date.
- Check debt classifications to ensure accurate recording.
- Check the following report to ensure the exercise was comprehensively executed:
    1) Exchange memoranda - outlining the terms of the exchange
    2) Debt agreement - original debt contract including modifications and new agreement made during the exchange
    3) Valuation Reports - assessing the fair value of the debt instruments in the exchange

4) Approval Records - Document of approval from the ministry and the government approving the debt exchange
5) Financial Statement Report -Financial Statement Report reflecting the impact of the debt on government financial position
6) Risk Management Report - Risk management strategy adopted to handle potential risks associated with the debt exchange programme

- Check the final report to ensure it aligns with underlying records.
- Economic impact - take expert advice on impact of the exchange on the economy, public finance, debt stability, economic growth, savings and investment
- Seek the opinion of other professionals on the appropriateness of the methodology employed
- Seek a letter of representation on the appropriateness of the methodology and impact on the economy.
- Draft a report
- Submit the audit work and the draft report for a review
- *Any other relevant point*

1 mark for each point on conducting the audit in relation with the implementation of Ghana's domestic debt exchange programme well explained. Maximum 6 points

(10 marks)

b)

i)

Attestation Engagement

The responsible party measures the subject matter against the criteria and presents the subject matter information to the auditor. The auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for forming a conclusion.

The attestation engagement could be with reasonable assurance or limited assurance. In reasonable assurance, the auditor could conclude that the subject matter information is or is not in accordance with applicable criteria. With limited assurance, the auditor states whether or not, based on the procedures performed, anything causes the auditor to believe that the subject matter is not in compliance with the applicable criteria.

Ability to explain attestation engagement 2 marks

Direct Engagement

The auditor is responsible for producing the subject matter information. He selects the subject matter and the audit criteria, and by measuring the subject matter information against the criteria, forms a conclusion. The conclusion is expressed in the form of findings, answers to specific audit questions recommendations or an opinion.

Ability to explain Direct engagement 2 marks

(4 marks)

ii)

Common areas of audit report for the two engagements

Although titles of sub areas may differ, there are common title area the two engagements may cover. Some of these areas are:

1) Titles - Both reports have titles indicating what the subject matters are about.
2) Description of the subject matter. E.g. data security, payroll, Financial Account, Health and safety etc.
3) Audit criteria - Standards expected to be met. Key contributors to audit's strength and focus on determining whether criteria are met or not.
4) Identification of auditing standards - Clear statements identifying the regulations use, whether they are being complied with, whether they have achieved the right results etc.
5) Conclusions - conclusions with analysis and findings whether the organization is meeting its compliance obligation or there is evidence of noncompliance.
6) Response from the audited entity on the findings raised (as appropriate)
7) Extent and the work performed
8) Any other relevant point

1 mark for each point on the common areas of audit report for the two engagements well discussed. Maximum 6 points

(6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Requirement (a)

Candidates were required to describe how they would plan and execute an audit of the implementation of Ghana's domestic debt exchange programme.

Candidates poorly answered this question. The majority of the candidates could not describe the planning and how they will conduct the audit. Candidates who provided some answers could not relate the audit plan to the execution of Ghana's domestic debt exchange program.

Requirement (b)

Candidates were required to evaluate Attestation Engagement and Direct Reporting Engagement and discuss common areas that will be covered by the reports of the two engagements.

Candidates performed poorly on this question. Majority of the candidates could not describe Attestation Engagement and Direct Reporting Engagement. Candidates could not provide areas of the audit report for the two engagements and deviated totally from the question.

Candidates should note that answers that are not focused on the requirement of the question attract zero marks

QUESTION FIVE

a)

The duties and responsibilities of an audit committee in achieving good corporate governance practices are;

1) The audit committee shall be responsible for overseeing the integrity of the accounting and financial reporting system and reporting to the Board on these matters.

2) The audit committee shall review the quarterly and year-end financial statements of the company, focusing particularly on:
   (a) accounting policies and practices;
   (b) significant adjustments arising from the audit;
   (c) the going concern assumption; and
   (d) compliance with the accounting standards of the Institute of Chartered Accountants (Ghana) and other legal requirements.

3) The responsibilities of the audit committee shall include the following with respect to the external audit:
   (a) to consider the appointment of the external auditor, the audit fee and, if such an event occurs, the resignation or dismissal of the external auditor;
   (b) to satisfy itself that the external auditor is independent and properly qualified;
   (c) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
   (d) to discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary);
   (e) to review the management's response to the audit report and the auditor's letter to management; and
   (f) to be a channel of communication between the external audit function and the Board.

4) The audit committee's responsibility in relation to internal audit shall include the following:
   (a) to advise the Board on the creation of an internal audit function and, if created within the company, on the senior appointments or where internal audit is outsourced, on the appointment of the third-party internal auditor;
   (b) to be responsible for the internal audit function so that:
      (i) where the internal audit department is within the company, the Chief Internal Auditor should report to the Chairman of the audit committee;
      (ii) where internal audit is outsourced, the audit committee should be responsible for the oversight of the third party;
   (c) to review the adequacy, scope, functions, capacity, effectiveness and resources of the internal audit function, and ensure that it has the necessary authority to carry out its work;
   (d) to review the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function;
   (e) to review any appraisal or assessment of the performance of members of the internal audit function;

(f) to approve any appointment or termination of senior staff members of the internal audit function;

(g) to ensure that the internal audit function is independent of the activities of the company and is performed with impartiality, proficiency and due professional care;

(h) to consider the implications of the resignation of internal audit staff members and provide the resigning staff members an opportunity to submit reasons for resigning; and

(i) to review the internal auditor's report on internal controls no less frequently than every six months, give its views to the Board on that report and take and document such action as it considers appropriate in the light of that report.

5) The audit committee's responsibilities shall also include the following:

(a) to review the adequacy of internal controls and of the degree of compliance with material policies, laws, the code of ethics and business practices of the company and to include the outcome of its review in a report on its activities in the company's annual report;

(b) to make recommendations to the Board with respect to the effectiveness of internal controls;

(c) to consider the major findings of internal investigations and management's response;

(d) to establish procedures for dealing fairly, promptly and effectively with complaints or other reports (whether anonymous or not and including those submitted through the whistle blowing facility established under paragraph 30) concerning the accounting, internal accounting controls, audit concerns, the code of ethics, violations of the law and other relevant matters referred to it by the Board;

(e) to consider and report on any related party transactions that may arise within the company or group, assessing in particular whether the price and other terms are consistent with an arm's length transaction and considering whether or not they are in the long term interests of the company as a whole and whether or not they should be subject to the approval of the shareholders at a general meeting;

(f) to commission and review internal audit reports on major transactions and other transactions, where requested by the director with particular responsibility for relations with minority shareholders, and to consider and report on the effect of such transactions on the rights of minority shareholders; and

(g) to consider other topics as defined by the Board.

6) The members of the audit committee shall:

(a) meet the external auditors no less frequently than annually without the presence of executive Board members;

(b) take reasonable steps to ensure that they are properly informed, so that they can be vigilant and effective overseers of the financial reporting process and the company's internal controls;

(c) assist the auditor and the management in protecting the auditor's independence.

7) The audit committee shall include, within the Board's annual report, a report on its work. That report shall include its confirmation that the external auditor was independent, appropriately qualified and acted with due care.

(4 points well explained @ 2.5 marks each =10 marks)

b)
i)

Key regulatory requirements

Due to the work of Intergovernmental bodies such as the Financial Action Task Force on Money Laundering (FATF), many countries now have legal provisions in place designed to detect, report, and ultimately prevent money laundering activities. These provisions vary from country to country and include the US Patriot Act 2001 in the USA and the Money Laundering Regulations 2007 in the UK.

Ghana is a member of the inter-governmental Action Group Against Money Laundering in West Africa (GIABA). In Ghana, the following form Ghana's regulatory framework for money laundering.

1) **Anti-Money Laundering Act, 2008 (Act 749) and its Amendments (Act 874 and Act 1044)**
   This Act provides the primary legal framework for AML in Ghana.
   It outlines offences related to money laundering, the responsibilities of reporting entities, and the establishment of the Financial Intelligence Centre (FIC).
2) **Amendment to Anti-Money Laundering Act 2014 (Act 874)**
3) **AML Regulations 2011 L.I. 1987**
4) **Anti-Terrorism Act, 2008 (Act 762)**
   This Act criminalises terrorism financing and includes provisions for detecting and reporting suspicious transactions related to terrorism.
5) **Economic and Organised Crime Office (EOCO) Act, 2010 (Act 804)**
   EOCO is tasked with investigating and prosecuting economic and organised crime, including money laundering.
   The Act empowers EOCO to collaborate with other agencies in combating money laundering.
6) **Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930)**
   This Act regulates banking and financial institutions, ensuring they implement effective AML measures.
   It requires institutions to conduct customer due diligence (CDD), maintain records, and report suspicious transactions.
7) **Companies Act, 2019 (Act 992)**

The Key regulatory bodies in Ghana with Money laundering responsibilities include.

1) **Financial Intelligence Centre (FIC)**
   The Financial Intelligence Center (FIC) was established in accordance with the Anti-Money Laundering Act 2008 (Act 749) as amended – as a corporate body with perpetual succession mandated by law to request, receive, analyse, interpret and disseminate financial intelligence in Ghana and abroad. Its mission statement is "to protect the Ghanaian economy from the scourge of money laundering and terrorist Financing for the enhancement of national and global economic stability and growth".
2) **Bank of Ghana (BoG)**
   The BoG oversees financial institutions, ensuring they adhere to AML regulations. It conducts inspections and examinations to assess AML compliance. For transactions that goes through the banking system, the BoG ensure that these transactions are devoid of money laundering activities.
3) **Economic and Organised Crime Office (EOCO)**
   EOCO investigates and prosecutes money laundering offenses. It collaborates with other law enforcement and regulatory bodies in AML efforts.
4) **Securities and Exchange Commission (SEC)**

The SEC regulates the securities industry and ensures compliance with AML requirements by capital market operators.

5) **Registrar General's Department**
This department oversees company registrations and ensures that entities comply with AML regulations, particularly regarding beneficial ownership information.

Some of the Key AML Measures and Requirements in Ghana

1) **Customer Due Diligence (CDD)**
Institutions such as Lamsey Jewelers must verify the identity of their customers before establishing a business relationship or conducting transactions. Enhanced due diligence (EDD) is required for high-risk customers, such as politically exposed persons (PEPs). The presence of clients who prefer to undertake cash transactions in the gold business is suspicious and so it is necessary for Lamsey Jewelers to verify their identities before engaging with them.
2) **Record Keeping**
Institutions such as Lamsey Jewelers must maintain records of customer transactions and identification documents for at least five years. These records should be readily available for inspection by regulatory authorities.
3) **Suspicious Transaction Reporting (STR)**
Institutions such as Lamsey Jewelers must report any suspicious transactions to the FIC without tipping off the customer. STRs should include detailed information about the suspicious activity, such as the huge cash receipts from clients and the parties involved.
4) **Training and Awareness**
Institutions such as Lamsey Jewelers and Baba Yara and Associates are required to provide regular AML training to their staff. Employees should be aware of AML laws, recognise suspicious activities, and know how to report them.
5) **Internal Controls and Policies**
Institutions such as Lamsey Jewelers must develop and implement internal policies, procedures, and controls to prevent and detect money laundering. These controls should include a compliance program, an appointed AML compliance officer, and regular audits.

1 mark for each key legal and regulatory requirements in Ghana related to anti-money Laundering stated and discussed. Maximum 5 points

(5 marks)

ii)

Obligations placed on professional firms

Money Laundering may be of particular relevance to accountants, and in particular auditors, in cases where criminals establish companies and use the transactions between their companies to 'Launder' their dirty money.

Specific obligations for detecting and reporting suspicions of money laundering are placed on professional firms. The requirements include the following.

1) Establishing systems, controls, and procedures to ensure that the firm is not used for money laundering purposes.
2) Appoint a Money Laundering Reporting Officer (MLRO), whose responsibility is to receive reports on suspected money laundering activities from other employees and report them to the appropriate authorities.
3) Establishing and enhancing the records-keeping systems 1) for all transactions (which must be kept for at least five years, with controls to ensure that they are not inadvertently destroyed) and 2) for verifying the identity of clients (by obtaining official documents, such

as – for an individual – passport or driving license, supported by recent utility bills, and – for a company – a certificate of incorporation).
4) Establishing procedures within the firm for reporting any suspicion of money laundering by clients' companies.
5) Training and educating staff in procedures for detecting and reporting suspicions of money laundering activities.

1 mark for each obligation stated and discussed. Maximum 5 points

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Requirement (a)
The overall responses to this question were good. Most of the candidates were able to explain the responsibilities of the audit committees although some candidates could not explain the responsibilities of the audit committees. The majority of the candidates scored above average on this question

Requirement (b)
Most candidates failed to state the regulatory requirement of anti-money laundering. This shows clearly that candidates have not read on the regulatory requirements for anti- money laundering in Ghana. Majority of the candidates deviated in answering the question (i). Candidates could not state the regulatory requirement, such as the Anti-Money Laundering Act, 2008 (Act 749) and its Amendments (Act 874 and Act 1044), Amendment to Anti-Money Laundering Act 2014 (Act 874), AML Regulations 2011 L.I. 1987, Anti-Terrorism Act, 2008 (Act 762) and the like. Candidates rather stated the obligations placed on professional firms. However, the majority of the candidates answered well the question (ii) on the obligation obligations placed on professional firms in relation to money laundering attracting higher marks in that section.

CONCLUSION
The performance of candidates in the November 2024 diet was below average. Candidate were unable to demonstrate their competence in advance auditing through the application of the knowledge gained to the practical scenario in the questions. To enhance performance, future candidates should:

- Develop a deeper understanding of international auditing standards, international accounting standards, international financial reporting standards, and other regulatory requirements.
- Practice applying auditing principles to auditing standards and regulatory requirements practical scenarios.
- Practice past questions.
- Focus on improving analytical and critical thinking skills.
- Work on providing clear, concise, and comprehensive answers.
- Ensure that their handwriting is legible.
- read over their work before submitting answer booklet.