SOLUTION 1

(a) Audit procedures to audit inter-company profits include the following:

(1) Identify and determine the appropriateness the method adopted by the parent company for identifying inter-company profits in inventories.

(2) Request the auditors of other group companies to verify:

(i) The schedule of inter-company inventory as supplied to the parent company and indicating whether the carrying value of that inventory is other than at purchase cost.

(ii) Details of profit margins on goods supplied to other group companies as supplied to the parent company.

(3) Check the calculation of inter-company profit in stocks and verify that it is properly eliminated on the consolidation worksheets.

(4) Examine invoices from other group companies to identify the types of purchases from those companies and see that those goods are included in the list.

(5) Inquire into any significant differences in the amounts of such inventories or in profit margins compared to previous years.

(b) The matters that should form the objectives of the forensic investigation and should be included in the investigation plan will include:

- Identifying the type of fraud that has been operating, how long it has been operating for, and how the fraud has been concealed.

- Identifying the fraudster(s) involved.

- Quantifying the financial loss suffered by the company and how much is involved for each fraudster.

- Gathering evidence to be used in the court proceedings.

- Providing advice to prevent the reoccurrence of the fraud.

(c) The auditor can obtain knowledge of the insurance industry and Aberempon Insurance Company Limited from a number of sources including:

(i) Previous experience with the company and the insurance industry.

(ii) Discussion with the directors, officers and operating personnel of the company.

(iii) Discussion with the internal audit personnel and review of internal audit reports.

(iv) Discussion with other auditors, legal and other advisors who have provided services to the company and within the insurance industry.

(v) Discussion with knowledgeable people outside the company, for example, the National Insurance Commission (NIC), (industry regulators), customers, suppliers and competitors.

(vi) Publications related to the insurance industry example, NIC statics, survey texts, trade journals, reports published in financial newspapers like Business and Financial Times.

(vii) The insurance Law 2006 and National Insurance Company (NIC) regulations.

(viii) Visits to the company's premises.

(ix) Documents produced by the company example minutes of meetings, materials sent to shareholders or filed with NIC, previous years audited financial reports, budgets, interim management reports, interim financial reports, management policy manuals of accounting and internal control systems, job descriptions, marketing and sales plans.

(x) The mass media (radio, television, newspapers and the internet).

SOLUTION 2

(a) The circumstance under which changes in accounting policies is permissible are:

- For compliance of accounting standard.

- For compliance with changes in statute or law.

- For better and appropriate presentation of the financial statements.

(b) The review should check that:

- All working papers are signal, dated and properly headed and indexed.
- All schedules are adequately cross-referenced.
- Totals on lead schedules agree with the accounts
- Audit programmes are signed and referenced to other working papers.
- The work which has been done is in accordance with the audit programmes.
- Conclusions have been drawn on all sections of the work.
- The right conclusions have been drawn from the work performed.
- Errors or omissions found during the course of the work are fully investigated and are recorded in the summary of errors and omissions.
- Material matters are noted on points on accounts.
- All points for a letter of representation and post audit letter have been noted.
- The audit time spent has been properly recorded and summarized.
- Documents of continuous importance one filed in the permanent file.
- Documents that are no longer relevant are removed from the permanent file.

(c) The principal auditor should consider the following:

- The materiality of the portion of the financial statements which the principal auditor audits.
- The principal auditor's degree of knowledge regarding the business of the components.
- The risk of material misstatements in the financial statements of the components audited by the other auditors.

- The performance of additional procedures regarding the components audited by the other auditor resulting in the principal auditors having significant participation in such audit.

(d)

SOLUTION 3

(a) (i) Income

- Perform analysis of sales of each shop, perform inter-shop comparison to identify any unusually high/low sales
- Perform analysis of sales of each section of the business for each shop, perform inter-shop comparison to identify any unusually high/low sales for any of the three (3) areas.
- Compare income per area shop with last year and to identify any unusually high/low sales for any of the three (3) areas.
- Obtain management accounts at the time of audit and compare income per area per shop so far in current year with the year of audit.
- Discuss all areas of unexpected results with management and obtain explanations for them.

- Obtain corroborative evidence to confirm the explanation given by management.

(ii) Gross profit

- Perform analysis of gross profit of each shop, perform inter-shop comparison to identify any unusually high/low gross profit.
- Perform analysis of gross profit of each section of the business for each shop, perform inter-shop comparison to identify any unusually high/low gross profit for any of the three (3) areas.
- Compare income per area per shop with last year and to identify any unusually high/low gross profit for any of the three (3) areas.
- Obtain management accounts at the time of audit and compare income per area per shop so far in current year with the year of audit.
- Discuss all areas of unexpected results with management and obtain explanation for them.
- Obtain corroborative evidence to confirm the explanation given by management.

(b) (i) Up-to-date strong anti-virus to protect website from cyber-attach.

(ii) Strong firewall ensures information on internal files are not exposed on the internet to protect internal information.

(iii) Internet access to bank account to view payments for ordered items online to facilitate fast delivery of paid items.

(iv) Encryption of data on delivery address on the internet lines to ensure delivery addressees are not changed by fraudsters.

v) Requirement to use a form of identification sent through email or use of authentic national ID card to take delivery of purchased item to ensure deliver to purchaser.

vi) Use of proper segregation of duties to ensure one member of staff cannot commit fraud with a customer in terms of ID, delivery addresses and payments.

(c) (i) When a company makes a provision for future or anticipated payment for a fine/compensation or restoration of damage to the environment.

(ii) When a company provides for a contingent liability in respect of a pending legal action.

(iii) When the asset values may be impacted example purchased goodwill/products due to impairment.

(iv) Capital or revenue expenditure (on social spending, clean-up or to meet a standard)

(v) Development costs may be increased due to ensuring meeting environmental or good corporate citizen (self-imposed or announced standard).

(vi) Going concern issues due to penalties, fines and judgment costs.

SOLUTION 4

(a) The audit expectation gap is defined as the difference between what the public expects from an audit and what the audit profession accepts to be the audit objectives.

It is the gap between the auditors' actual standard of performance and the various public expectations of auditors' performance.

The expectation gap is the difference between what users of financial statements, the general public, perceives an audit to be and what the audit profession claim is expected of them in conducting an audit.

Examples of public perception of an audit are that:

- Auditors should accept prime responsibility for financial statement.
- Auditors certify financial statements
- A clean opinion guarantees the accuracy of financial statements
- Auditors perform 100% check
- Auditors should give early warning about the possibility of business failure; and
- Auditors are supposed to detect fraud.

(b) Audit procedures with respect to the opening balances of Pink Insurance Company Limited may include:

(i) Ensure that the opening balances do not contain misstatements that could materially affect the current year's financial statements.

(ii) Ensure that the opening balances have been brought forward properly, paying particular attention to amounts which have an effect on the results of the current period.

(iii) Ensure that the accounting policies followed for the current period are consistent with those of the previous period.

(iv) Consult with management where in doubt.

(v) Review records of the business and internal control procedures for the previous period, particularly to the extent that they relate to the opening position.

(vi) Analyze current audit work of the current period to the extent that it relates to the opening position.

(vii) Carry out substantive testing of the opening balances.

(viii) Perform additional work to obtain evidence about the amounts by

- Consulting the management
- Reviewing the records and accounting and control procedures in the proceeding period.
- Consulting with the previous auditor and reviewing with his permission his working papers and relevant management letters.

(c) (i) The audit team should:

(i) Review management's plans for future action based on its going concern assessment.
(ii) Gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures necessary, including consideration of the effects of any plans of management and other mitigating factors.
(iii) Seek written representations from management regarding its plans for future action.

(ii)

SOLUTION 5

(a) (i) Fixed assets register

As auditor, I would direct my attention to the following matters when examining the fixed assets register of a large limited company:

- That the register is both accurate and up-to-date showing all additions and deletions (disposal) during the year.

- That total balances shown by an assets register is in agreement with total balances shown by financial records.

- That the register is periodically checked physically against assets by the client.

- The fixed assets register will typically contain:

- Date of purchase

- Suppliers name

- Cost, insured value and current valuation

- Full description

- Manufacturer's serial numbers, if any and internally allocated identify numbers.

- Location

- Depreciation rate and planned disposal/scrapping date
- Major repairs, extensions or additions
- Details of any leasing or hire purchase arrangements

One may add that the assets register is useful to both the client and the auditor as it provides:

- A convenient link between the accounting records and the assets themselves, thus facilitating physical checks by internal and external auditors.
- A ready source of reference for details of fixed assets which might otherwise entail lengthy searches in records and files.
- A historical records which may be of value for tax purposes
- Useful information about planned asset scrapping or disposal dates which will facilitate cash budgeting.

(b) Safeguard to be implemented to manage the conflict of interest:

- Ethel and Harry's management should both be informed of the situation and asked to give consent for the OWURAKU and Co to act for both.
- OWURAKU and Co should use separate engagement teams, with different engagement partners and team members for each audit. Employees that have worked on Ethel should be prevented from being on the audit of Harry for an appropriate period of time and vice-versa.
- OWURAKU and Co should ensure the audit teams are provided with clear guideline for members of each engagement team on issues of security and confidentiality.
- Procedures should be put in place to prevent access to information, such as strict physical separation of both teams, confidential and secure data filing.
- OWURAKU and Co could advise one or both clients to seek additional independent advice.
- Confidentiality agreements could be drawn up and signed by employees and partners of the firm.

- A senior partner at OWURAKU and Co who is not involved in either audit should regularly monitor the safeguard to ensure they are properly applied.