SOLUTON 1

a) i. The auditor would assess the client's correct use of accounting concepts in the preparation of the financial statements to ensure that they give a true and fair view in the following manner:

The Going Concern Concept.
Assess the reasonableness of management use of the going concern basis for the preparation of the financial statements. Where the going concern basis is in doubt, assess the effect of such going concern uncertainty on the financial statement and the audit opinion thereon.

The Accrual Concept.
Assess whether the entity's procedures and practices in relation to the recognition of revenues and costs and expenses for the financial statements conform to the applicable reporting framework.

The Prudence Concept.
Consider the entity's practices with respect to revenue and cost recognition to ensure that such practices do not result in overstatement of revenues and assets and understatement of cost and expenses and liabilities. Especially, care must be taken with respect to practices which will result in the payment of dividends form capital rather than earned profits.

The consistency concept.
Consider the consistent treatment of like items in the financial statement from year to year and ensure that changes are effected only when necessitated by changes in financial reporting standards or other accepted factors.

ii. Accounting Bases are methods developed to give effect to the accounting concepts in the preparation of financial statements. For example, methods developed for charging depreciation on non- current assets and methods for valuing stocks.
On the other hand, Accounting Policies are the accounting bases selected by an entity which in the opinion of management are best suited to the operations of the entity and consistently applied in the preparation of the financial statements.
E.g. depreciation policy and stock valuation policy.

b) The audit committee should perform the following functions:
   (i) Reviewing of a company's internal control procedures and recommending improvements.

(ii) Reviewing of a internal audit function to ensure that it is adequately resourced, has appropriate standing within the company and performing effectively and efficiently.
(iii) Review of the company's existing accounting policies and recommending changes in response to new reporting standards.
(iv) Review of regular management information interim and management accounts.
(v) Review of annual financial statements presented to shareholders.
(vi) Review of the external auditor's examination to ensure that the auditors have performed effective, efficient and independent audit.
(vii) Reviewing published interim or preliminary statements, draft prospectus, profit forecast, etc.
(viii) Reviewing and dealing with external auditor's criticism of management and ensuring that recommendations of internal and external auditors have been implemented.
(ix) Recommending nomination and remuneration of external auditors.
(x) Reviewing the company's procedures and system to manage business risk and environmental problems.
(xi) Review of major findings on internal investigations and on managements response to those investigations

SOLUTION 2

a) The components of audit risk are:

Inherent Risk.

Is the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements assuming that there are no effective related controls.

The risk of such misstatements is greater for some assertions and related classes of transactions account balances and disclosures than for others. For example, complex calculations and accounts consisting of amounts derived from accounting estimates may pose greater risk.

External circumstances may also influence inherent risk, for example, technological developments that might make a particular product obsolete, thereby causing stocks to be more susceptible to overstatement.

Control Risk.

Is the risk that a misstatement that could occur in an assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented or detected and corrected, on a timely basis by the entity's internal control. Some control risk will exit because of the inherent limitations of internal control. Inherent risk and control risk are the entity's risks; they exit independently of the audit of the financial statements

Detection Risk

Is the risk that the auditor will not detect material misstatements that exist in an assertion that could be material, either individually or when aggregated with other misstatements.

Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor. It cannot be reduced to zero because the auditor usually does not examine all of a class of transactions, account balance, or disclosure.

Detection risk relates to the nature, timing and extent of the auditors procedures that are determined to reduce audit risk to an acceptably low level.

b) (i) Under the International Framework for Assurance Engagements two types of Assurance Engagements a practitioner is permitted to perform are:

- Reasonable Assurance Engagement and
- Limited Assurance Engagement

The objective of a reasonable assurance engagement is that reduction in assurance engagement risk to an acceptably low level in the circumstance of the engagement as the basis for a positive form of expression of the practitioner's conclusion.

The objectives of a limited assurance engagement is the reduction in assurance engagement risk to a level that is accepted in the circumstances of the engagement, but where the risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.

(ii) The following are the elements of an Assurance Engagement:

1. Three parties – a professional accountant, a responsible party and an intended user.

   The professional accountant provides assurance to the intended user about a subject matter that is the responsibility of another party.

   The responsible party is the person or persons responsible for the subject – matter.

The responsible party may or may not be the party who engages the professional accountant. The intended user is the person or class of persons for whom the professional accountant prepares the report for a specific use or purpose.

2. The Subject – Matter

   This may take the form of:

- Data, historical or prospective financial information, statistics or performance indicators.
- Systems and processes- eg. Internal controls.
- Behaviour – eg. Corporate governance, compliance with regulations, human resources practices.

3. Criteria.

   Standards or benchmarks used to evaluated or measure the subject matter.

   They establish and inform the intended user the basis against which the subject matter has been evaluated or measured in forming the conclusion.

4. The engagement process.

   Is a systematic methodology requiring a specialized knowledge and skill base, and techniques for evidence gathering and evaluation; and measurement to support a conclusion, irrespective of the nature of the engagement subject matter.

5. Conclusion

   The professional accountant expresses a conclusion that provides a level of assurance as to whether the subject matter conforms in all material respects with the identified criteria.

SOLUTION 3

a) The main matters that the principal auditors would consider before relying on the accounts audited by other auditors include:

i) Obtaining information regarding the professional competence of the other auditor in the context of the specific assignment undertaken by the other auditor.

ii) The independence of the other auditor. Advising the other auditor of the independence requirements applicable to bother the entity and the component and obtaining representation as to his compliance with them.

iii) Advising the other auditor of the use to be made of his work and report. Informing the other auditor of matters requiring special considerations, procedures for the identification of inter – company transactions that may require disclosure and timetable for the completion of the audit. Sufficient arrangements must be made for the co- ordination of their efforts at the planning stage of the audit.

iv) Advising the other auditor of the applicable accounting, auditing and other reporting requirements and obtaining representation as to compliance with them.

v) Ensuring that there are uniform accounting policies throughout the group and if not what adjustments will be required to bring all the accounts to the same footing.

vi) Considering the significant audit finding s of the other audit.

vii) Performing procedures to obtain reasonable assurance that the work performed by the other auditor is adequate for the principal auditor's purpose.

viii) Deciding that supplementary test of the records on the financial statements of the components are necessary, which test may be performed by the other auditors or together with the other auditors.

ix) Considering the scope of the work of the other auditor:

- Whether all material aspects of the underlying accounts have been subjected to audit examination.
- Whether there are any reasons why they cannot rely on the work of the other auditor. The auditor should consider any modification in the other auditor's report when drafting his own report.
- The principal auditor must consider the materiality of the accounts involved when deciding the extent of their enquiries.
- The principal auditor must obtain satisfactory evidence that the work of the other auditor is adequate.

b) Verification procedures for Stated Capital include:

i) Obtain or prepare a schedule summarizing Stated Capital and the various classes of shares.

ii) Agree the authorized number of shares with the company's regulations ensuring that all classes of shares are correctly stated.

iii) Check any changes to board and members' minutes and resolutions, where appropriate.

iv) Confirm the transfer from surplus from the Director's minutes.

v) Update the permanent file as a result.

vi) Note any changes in the stated capital during the year and agree to minutes, resolutions, etc.

vii) Vouch the considerations received and agree amounts called up but not paid it any.

viii) Note the details of any options outstanding on unissued shares and ensure adequate disclosure in the notes to the accounts.

ix) Test the extraction of balances from the Register of Members and agree to the issued number of shares and the stated capital in the balance sheet.

x) Where share repurchases have taken place ensure appropriate legal requirement have been complied with.

xi) Ensure adequate disclosure of director's shareholdings and transaction in shares.

xii) Review register of shareholdings to verify significant shareholdings.

SOLUTION 4

a) (i) Audit software may be used during compliance and substantive tests. Typical uses of such programs include:

1. Calculation checks. Eg. The program adds the value of open items on a file to ensure that they agree with control records.
2. Detecting violations of systems rules. Eg. The program checks all accounts on the sales ledger to ensure that no customer had a balance above a specified credit limit.
3. Detecting unreasonable items. Eg. Checking that no customer is allowed trade discount more that 30%
4. Conducting new calculations and analysis. Eg. Obtaining a statistical analysis of stock movements to identify slow moving items.
5. Selecting items for audit testing. Eg. Obtaining strafified sample of sales ledger balances to be used as a basis for debtors' circularization.
6. Completeness checks. Eg. Checking the continuity of sales invoices to ensure they are all accounted for.

(ii) The following are the well- known class of computer crimes:

1. Salami Techniques.
   This involves software manipulation for rounding off fractions such as an interest and payroll calculation and transferring the results to the perpetrator's account.

2. Trojan horse.
   Is a software manipulation where a program is hidden within another program set up to erase all evidence of illegal access?

3. Asynchronous attack.
   This uses the asynchronous nature of most computer operating system to command parallel execution of two programmes while recording only one continuous run in the operation log.

4. Trapdoor
   Like the Trojan horse, but where false instructions are hidden in gaps left in number assigned to program lines during the development stages.

5. Hacking
   Properly the most publicized computer crime. It involves obtaining illegal access to computer systems by cracking access codes.

6. Data Diddling
   This technique does not involve the computer itself but manipulation of input or output data.

a) "We have audited the accompanying balance sheet of Adeyepena Ltd. as at 31st December, 2010, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

   Except as discussed in the following paragraph we conducted our audit in accordance with International Standards of Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation the overall financial statement presentation.

   We did not observe the counting of the physical stocks as of 31 December 2010, since that date was prior to the time we were initially engaged as auditors for the company. Owing to the nature of the company's records, we were unable to satisfy ourselves as to the stock quantities by other audit procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical stock quantities, the financial statements give a true and fair view of the financial position of the company as of December 31, 2010, and of the results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and complies with the companies code, 1963, Act 179.

Signed (Auditor)
1/10/2011
Kokompe, Accra.

SOLUTION 5

a) 1. The following procedures would be carried out for the back- duty investigation.

(i) Obtain copies of all tax returns submitted.

(ii) Consider whether taxpayer can be persuaded to make voluntary disclosure of undisclosed income in order that some mitigation of penalties can be negotiated.

(iii) Consider whether the undisclosed income might be readily ascertainable from the taxpayer's books and records.

(iv) Extend the investigation to cover the taxpayer's spouse and dependants and to investments and assets hold in their names.

(v) Obtain copies of all available records such as bank statements, building society statements, estate agents statements with respect to property transaction, including sales and rent.

(vi) Ascertain details of all investments transactions, both capital and revenue, such as sales and purchases, dividends, rights and bonus issues, etc.

(vii) Ascertain the details of purchases and disposals of other assets such a life insurance, chattels and property.

(viii) Ascertain details of other taxable and non- taxable receipts and payments such as gifts, legacies, gambling winnings, etc.

(ix) Estimate normal expenditures, consistent with taxpayer's standard of living – such as type of housing, quality of furnishing, ownership of cars, jewellery and other capital assets, private school fees, types of holidays taken and private medical expenses. State assumptions of estimates

(x) Consider what other clues might be available, such as the value of assets insured, receipts and payments through bank and building society accounts. Etc.

2. Forensic Auditing is the specific use of audit procedures within a forensic investigation to find facts and gather evidence, usually focused on the quantification of a financial loss. This could include, for example, the use of analytical procedures, and substantive procedures to determine the amount of and insurance claim.

b) Threats to compliance of the fundamental principle of professional ethic may be categorised as follows:

1. Self – Interest Threats.
   May occur as a result of the financial or other interest of an accountant or of an immediate or close family member.

2. Self – Review Threats
   This may occur when a previous judgement needs to be re- evaluated by the accountant for that judgement.

3. Advocacy Threats
   This may occur when an accountant promotes a position or opinion to the point that subsequent objectivity may be compromised.

4. Familiarity Threat
   This may occur when, because of a close relationship, an accountant becomes too sympathetic to the interests of others.

5. Intimidation Threats
   This may occur when the accountant may be deterred from acting objectively by threats, actual or perceived.