SOLUTION 1

(a) (i)

1. Helping the auditor to devote appropriate attention to important areas of the audit.

2. Helping the auditor identify and resolve potential problems on a timely basis.

3. Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

4. Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.

5. Facilitating the direction and supervision of engagement team members and the review of their work.

6. Assisting, where applicable, in coordination of work done by auditors of components and experts.

(ii) The auditor shall undertake the following activities prior to starting an initial (first time) audit:

1. Performing procedures required by ISA 220 regarding the acceptance of the client relationship and the specific audit engagement; and

2. Communicating with the predecessor auditor, where there has been a change of auditors in compliance with relevant ethical requirements.

(b) (i)

Substantive audit tests are tests of transaction s and balances and other procedures which seek to provide evidence as to the validity, accuracy and completeness of information in accounting records or in the financial statements.

Compliance tests are tests of controls to provide evidence about the suitability of design and effectiveness of the accounting and the internal control systems.

(ii) **Any two of**:

1. It increases the level of confidence that the population conforms to the sample results.

2. The sample size is determined objectively in accordance with the degree of risk.

3. Bias in selecting the sample is eliminated.

4. The results of tests can be expressed in mathematical terms.

5. The audit objectives are clarified as part of the process to decide on the required precision and confidence level.

(iii) Systems-based auditors refers to where the auditor assesses the system of accounting and international controls and if he believes the systems are effective, he carries out tests of controls to ensure the controls operate as they are supposed to and that he can place reliance on them to enable him reduce the extent and amend the timing of the substantive audit procedures required.

Risk-based audit refers to the development of auditing techniques that respond to previously identified risk factors associated with the audit.

(iv) Rotational testing (also Rotation of audit Emphasis) takes place in the audit environment where the system of accounting and internal controls are known to be sound from past experience and consequently the sample of items tested is small. It then becomes useful to carry out a series of tests in one selected area, for example sales, wages, stores, purchases over and above those which are scheduled in the normal audit programme. This area is not usually disclosed in advance to act as a moral check on the staff and confirm that the system is still operating as effectively as is believed.

Directional testing is where the auditor has to ensure that when performing a test of control, he chooses carefully which items to select his samples from in order to ensure he achieves the audit objective.

For example:
When we want to ensure that all sales have been completely recorded in the daily sales book (DSB), we shall pick our samples from the record of sales with delivery notes signed by the customers and trace them to the DSB and not vice versa.

On the other hand, if we want to test if all the sales recorded in the DSB are genuine sales, we shall pick our samples from the DSB and trace them to the record of sales from the supplicate sales invoices with the delivery notes signed by the customers.

(v) Audit risk is the risk that the auditor will issue an inappropriate opinion when the financial statements are materially misstated. Audit risk has three components:

Inherent Risk; Control Risk; and Detection Risk

SOLUTION 2

Report
To: Audit committee – Akuafo Company Limited
From: The Auditor
Topic: **Four weaknesses in the sales system of Akuafo Company with possible effect of each weakness; and recommendations to alleviate the weakness.**

We have reviewed the sales systems as part of the audit of the financial systems and provide you with the following report:

Weaknesses Identified	Possible Effect	Recommendation
1. The manual transfer of order details onto the company's internal; inventory control and sales systems	Some orders could be lost in the manual transfer.	The orders should be automatically transferred electronically to the inventory and sales system.
2. Giving each order and packing list a random alphabetical code based on the name of the employee inputting the order, the date, and the products being ordered.	Lost orders may be not be detected in the system.	The orders should be automatically numbered in a sequential order.
3. Dispatched sales items to the customer before his credit card is charged.	Bad debts may result if the card is invalid or has no credit.	The order must only be processed after checking that the credit card is valid and the balance on card is enough to pay for the order
4. Using the second copy of the packing list in the accounts department to update inventory and sales in the computer system to shoe that the order has been dispatched.	If the order does not go through due to invalid card or insufficient credit on card would mean the transaction has to be reversed in the accounts department.	Order is recorded by accounts to update inventory and sales in the computer system after a successful dispatch only.
5. The computer system checks that for each charge made to a customer's credit card account successfully, the order details are on file to prove that the charge was made correctly.	This has no control effect at all.	The system should perform a check to agree the order to the packi9ng list and the credit card charge before printing the dispatch note that is used to allow the goods to be dispatched.
6. There is no control to detect the duplicate dispatch of a order.	This can cause loss to the company.	When dispatch note is printed, the system should close the order and taking it off the list of orders to be executed.

(b)
1. The degree of independence of the internal auditor
2. The scope and objectives of the internal audit function
3. The quality of Internal Audit Work
4. The technical competence of the internal auditor
5. The quality of Internal Audit reports to management

SOLUTION 3

(a) (i)
This is to ensure that the person who performs the examination is not under the influence of those who prepare the records and financial statements that are under examination.

(ii)
1. An officer of the company or an associated company
2. A partner or an employee of an officer (except the Secretary or Registration Officer) of the company or an associated company.
3. An infant (person under 18 years).
4. A person found by a competent court to be of unsound mind.
5. A body corporate (or company) except that members of an incorporated partnership.
6. An un-discharged bankrupt except with the permission of a court to do so for a particular company.
7. A person whom an order under section 186 of the code has been made and the order remains in forces except with the permission of a court to do so for a particular company.

(b) (i) Gifts and hospitality are acceptable if they are what one will expect to be given to any person who visits the client office according to the culture and custom such as tea/coffee or water and a decent hotel accommodation for those who stay over. Anything over what is culturally expected and obviously expensively above this is not allowed and should be politely rejected as this can affect the auditors independence and objectivity.

(ii) Yes, the firm can. The employee of the firm is not a partner but an audit manager. We should ensure that employee is not the manager or the audit of that client to ensure the manager's objectivity is no affected.

(iii)
1. To consider that any information in the Directors' Report is consistent with the accounts
2. That in his opinion, proper accounting records have been kept by the company
3. Proper returns adequate for the audit have been received from the branches not visited by them
4. The company's balance sheet and its profits and loss accounts are in agreement with the accounting records
5. The explanations, he thinks necessary for the company's audit have been received from the directors and officers.

(iv) No, the code recommends that the only other professional service that auditors may provide to their audit clients is Tax Advisory service. This is to avoid self-review as the provision of Internal Audit services is mainly a management advisory function and may involve the auditor taking management decisions that would need to be reviewed by the external auditor later.

A large firm may have a section dedicated to providing non-audit services to the public but even in that case the provision of both internal and external audit services to the same client is absolutely a clear violation of the Code.

(v) This is a case where the auditor is called upon to provide information he acquired from his professional association with his client and violates the code in terms of confidentiality.

The auditor would need a written permission from the client to provide any information to the Ghana Revenue Authority (GRA). If the matter goes to court, the auditor will be under oath and cannot refuse to give evidence without the need for the permission from the client.

SOLUTION 4

(a) (i)

1. This will enable the auditor to test the whole population instead of selected items and so improve the effectiveness of the audit.

2. It will also allow a substantial time saving to increase the efficiency of the audit.

(ii)

1. The possible overstatement of the value of inventory

2. The large increase in the year-end inventory (over 65% increase over 2010 value)

3. The fact that no physical stock-taking is done to compare actual quantities with systems quantities.

(iii)

Test	Reason for Test
Observe the input of an inventory item without the manufacture and expiry dates	The system must request for the manufacture and expiry dates and refuse to save the record without the dates
Test the accuracy of the perpetual records from a day's sales	The closing quantity at the end of the day should e equal to the opening quantity at the beginning of the day less the sales quantity for the day for every item sold in the day
Test the re-order level messages setting by printing the quantity at hand when message is received	To ensure the message is sent at the correct level set
Reperform the calculation of the value of inventory at the end of the day by reference to purchase file	The price used to calculate inventory values at the end of the day should be that of the last purchase invoice recorded.

(ii)

Test	Reason for Test
1. Obtain the system (electronic) record of inventory value at year end.	To enable the auditor to get an electronic record of inventory from the system at year end for audit purposes and ensure that audit procedures to be performed will not affect the client's life (or working) environment.
2. Agree the value of inventory at prior year end on the trial balance with the final inventory value on previous year audit file.	This is to assure the auditor that the system at 31 July 2011 is a continuation of the same system that was in use at 31 July 2010.
3. Determine that the prices used to determine the value of inventory at 31 July 2011 are those of the last purchased items entered on the system	This will ensure that the corrected price on FIFO basis of inventory valuation as adopted by management is fully implemented
4. Use the audit software, the value of any items of inventory that have expired	To get the value of all expired items to be taken off the year end value on the trial balance as obsolete or unsellable inventory
5. Determine the value of inventory for items which have not expired from 3 and 4 above	This is the auditor's own value for the inventory that is still sellable at 31 July 2011

6. Compare the value obtained in 5 above with the value on the trial balance and conclude whether or not the value of inventory of is fairly stated	This will enable the auditor to determine if the audit difference between his value and that of the client is material and require an audit adjustment to the value of inventory of chemicals at 31 July 2011

SOLUTION 5

(a) (i)

Professional – International Standards of Auditing (ISAs) and code of Professional Ethics issued by the International Federation of Accountants (IFAC).

Statutory/Legal – Companies Code (Act 179 of 1963).

(ii)

Statutory/Legal duties or Requirement the auditor must meet.

1. To make a report to members of the company on all accounts and financial statements laid before members at the Annual General Meeting and to state whether the financial statements show a true and fair view and has been properly prepared in accordance with the provisions of the Companies code.

2. To consider if any information in Directors' Report is inconsistent with the accounts sand to report that fact.

3. To form an opinion as to whether

(i) Proper accounts have been kept by the company;

(ii) Proper returns adequate for their audit have been received from branches not visited by him;

(iii) The company's balance sheet and its profit and loss accounts are in agreement with the accounting records and returns; and

(iv) He has received such information and explanation as he thinks necessary from the company's officers

4. To outline in his report details of directors' remuneration, loans to officers, transactions involving directors and other connected persons or related parties as defined (if not disclosed in the financial statements).

5. To make other special reports in various circumstances.

6. To make a 'statement of circumstances' when he ceases to hold office for any reason.

(b) (i)

Representation Letter	**Engagement Letter**
Management to auditor	Auditor to directors
On company letterheads	On auditor's letterhead
Addresses issues for which other audit evidence is difficult to obtain	Addresses issues the auditor wishes to bring to the attention of directors and forms the basis of contract with the company
Usually written by auditor but signed by management	Always written by and signed by the auditor

(ii) Engagement Letter

1. Respective responsibilities of directors and auditors

2. Specific requirements of the companies Code the auditor would need to satisfy himself of:

   - Whether adequate accounting records have been kept by the company;
   - Whether the balance sheet and income statement are in agreement with the accounting records and returns;
   - Whether we have obtained all the information and explanations which we consider necessary for the purpose of our audit;
   - Whether the information given in the directors' report is consistent with the financial statements.

3. Professional responsibility to report if the financial statements do not comply in any material respect with applicable accounting standards

4. Scope of audit

5. Responsibility towards the detection of fraud, error and non-compliance with laws and regulations

6. Assistance with the preparation of financial statements

7. Basis on which audit fees are computed

8. Usually ends with acknowledgements and acceptance by the directors, evidence by signing a copy to be returned to the auditor

(c) Independent auditor's report is considered modified in two ways as follows:

(i) Matters that do not affect the auditor's opinion – Emphasis of matter.

(ii) Matters that affect the auditor's opinion

- ***Qualified opinion***
- ***Disclaimer of opinion***
- ***Adverse opinion***

(i) Matters that do not affect the auditor's opinion

Emphasis of matter – An auditor's report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements that is included in a note to the financial statements that more extensively discusses the matter. Such an emphasis of matter paragraph does not affect the auditor's opinion. An emphasis of matter paragraph may also be used to report matters other than those affecting the financial statements (e.g. if there is a misstatement of fact in other information included in documents containing audited financial statement).

(ii) Matters that affect the auditor's opinion

(a) ***Qualified opinion*** – A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion.

(b) ***Disclaimer of opinion*** – A disclaimer of opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express opinion on the financial statements.

(c) ***Adverse opinion*** – is expressed when the effect of a disagreement is so pervasion to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.