

**NOVEMBER 2023 PROFESSIONAL EXAMINATIONS  
ADVANCED AUDIT & ASSURANCE (PAPER 3.2)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**EXAMINER'S GENERAL COMMENTS**

There were signs of inadequate preparation on the part of candidates. Some candidates' handwriting were illegible that it could take one at times over 30 minutes to read an answer to a question. Some candidates wrote across borders (i.e within the margins). Some candidates wrote wrong question numbers for answers provided.

Some candidates did not write the question numbers in the space provided in front of the answer booklet to indicate the order of the answers in the booklet.

**STANDARD OF THE PAPER**

The standard of the paper is comparable to that of July 2023 sitting. The verbs used in setting the questions include: Discuss, explain, prepare, state, write, describe and comment.

**PERFORMANCE OF CANDIDATES**

Candidates' performance was above average. There was no sign of copying by candidates. There were a few instances where candidates recorded wrong question numbers for answers provided. Candidates stray with the columns reserved for examiners and moderators in the answer booklet.

**NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES**

Candidates had shown strengths in areas that regularly feature in the examinations, e.g ethics, money laundering etc. in as well as questions that are straight forward.

However candidates displayed weaknesses in the following:

- The ability to relate answers to relevant information in the scenario.
- The application of relevant standards to answers.
- A good number of candidates over elaborated on answers without considering marks allotted to the question.
- Majority of the candidates did not present their answers in an orderly manner. Some answers did not have question and sub-question numbers. Answers were without paragraphs, virtually presenting answers like the way "police reports" are written.

## QUESTION ONE

- a) You are the Audit Senior at Fameye and Associates, which has been auditing Adepa Ltd for the past 3 years. The Managing Partner, Mr. Fanfu, was a school mate of the Board Chairman of Adepa Ltd. The Board Chairman owns 80% of the shares in the company. Adepa Ltd is into cassava cultivation and starch manufacturing.

Mr. Agyei is the Partner in charge of quality control of Fameye and Associates. Last year, his wife was contracted to supply cassava to Adepa Ltd. Mr. Agyei's wife who is an out-grower farmer was also given a loan just as any other out-grower, to improve her farm. The amount is payable this year.

You have been scheduled to audit the Financial Statements of Adepa Ltd. The daughter of the Board Chairman is an audit trainee of your audit team. The Chief executive of Adepa Ltd, Mr. Brown has indicated that last year's audit delayed and he would not tolerate any delays in this year's audit.

**Required:**

Discuss **THREE (3)** ethical issues worth considering in the above scenario and for each recommend possible safeguards. **(6 marks)**

- b) Kankam and Partners is an audit firm providing audit services to two competing beer producers: "Pashew" and "Agyimu" breweries. The two companies run neck to neck in terms of market share, with "Pashew" 45% and "Agyimu" 40%. Advertisements run by the companies give the impression of stiff competition between the two and public perception is that they are enemies.

**Required:**

As an Audit Manager of Kankam and Partners, discuss **TWO (2)** measures your firm should put in place to avoid disclosing confidential matters of the companies to each other. **(4 marks)**

- c) You have recently been employed by a small firm of Chartered Accountants "Osei Peprah and Associates". The firm has been in operations since 1985 and the two main partners Mr. Osei and Mr. Peprah are above 70 years old. They are mostly inactive in the main audit work and rely on three audit trainees and one Audit Senior for the performance of the audit engagement for their 30 clients. The three audit trainees were recently employed after their national service with the firm. You are the only qualified accountant besides the partners.

On your first meeting with Mr. Osei, he explained that the firm needs to improve its quality control procedures and audit working papers. He highlighted that the recent audit of the firm's activities by the Quality Assurance Monitoring department of ICAG revealed several quality control issues as well as non-compliance with ISAs in their audit engagements.

**Required:**

In accordance with *ISA 220 (Revised): Quality Management for an Audit of Financial Statements*, explain **FIVE (5)** responsibilities of the engagement partners for managing and achieving quality on audits. **(10 marks)**

**(Total: 20 marks)**

## QUESTION TWO

Omega Ltd was incorporated to engage in the production, supply and retail of sachet water. The final audit for the Financial Statements ending 31 December 2022 is nearly complete and it is proposed that the Financial Statements and Audit Report will be signed in March 2023. Revenue for the year is GH¢78 million and profit before tax is GH¢7.5 million. The following events have occurred subsequent to the end of the reporting year of the company.

### **Lawsuit**

A key supplier of Omega Ltd is suing them for breach of contract. The lawsuit was filed prior to the year end, and the sum claimed by the supplier is GH¢1 million. This has been disclosed as a contingent liability in the Notes to the Financial Statements. However, correspondence has just arrived from the supplier indicating that they are willing to settle the case for a payment by Omega Ltd of GH¢0.6 million. It is likely that the company will agree to this. **(7 marks)**

### **Warehouse**

Omega Ltd has three warehouses sited in different locations. Following extensive rain on 20 February, 2023, one of the warehouses was completely flooded and as a result, all inventory in the warehouse valued at GH¢1 million was damaged and has been disposed off. The insurance company has already been contacted. No amendments or disclosures have been made in the financial statements. **(7 marks)**

### **Account Receivables**

A customer of Omega Ltd has been experiencing cash flow problems and its year-end balance is GH¢0.3 million. The company has just become aware that its customer is experiencing significant going concern difficulties. Omega Ltd believes that as the company has been trading for many years, they will receive some, if not full payment from the customer, hence the receivables balance has not been adjusted. **(6 marks)**

### **Required:**

Using the three issues above:

- a) Discuss whether the financial statements require amendment;
- b) Describe audit procedures that should be performed in order to form a conclusion on the amendment; and
- c) Explain the impact on the audit report should the issues remain unresolved.

**(Total: 20 marks)**

### QUESTION THREE

**ISA 701: Communicating Key Audit Matters (KAM)** in the Independent Auditor's Report is a new ISA introduced as part of the International Audit and Assurance Standards Board's (IAASB) extensive revisions to International Standards on Auditing (ISAs) relating to audit reporting. The objective of the IAASB's revisions was to make the auditor's report more detailed and useful for the intended users. ISA 701 applies to audits of complete sets of general purpose financial statements of listed entities.

Subsequently, the Institute of Chartered Accountants, Ghana (ICAG) as the regulator of accountancy profession and practice in Ghana, issued a notice to practitioners and the public which directed that auditor's report issued on financial statements for periods ending on or after 31 December, 2017 for Public Interest Entities (PIEs) to include a communication on Key Audit Matters as required by ISA 701.

You are the Partner in charge of training with Preko and Associates. An audit team member informed you that one of the clients being audited has an issue which is being contemplated as to whether to report the issue as key audit matter, emphasis of matter paragraph, other matter paragraph, or to modify the audit opinion.

**Required:**

Prepare briefing notes for the staff of your firm regarding the following:

- a) KAMs and state **TWO (2)** categories of entities in Ghana which ISA 701 is applicable as adopted by ICAG. **(5 marks)**
- b) Factors to be considered in determining KAMs. **(3 marks)**
- c) Interaction between:
  - i) KAMs and *ISA 705 (revised): Modifications to the Opinion in the Independent Auditor's Report*
  - ii) KAMs and *ISA 570 (revised): Going Concern*
  - iii) KAMs and Emphasis of matter
  - iv) KAMs and Other matters **(12 marks)**

**(Total: 20 Marks)**

## QUESTION FOUR

- a) Accountability and transparency are two important elements of good governance. Transparency is a powerful force that, when consistently applied, can help fight corruption, improve governance and promote accountability.

Accountability and transparency are not easily separated: they both encompass many of the same actions, for instance, public reporting. The concept of accountability refers to the legal and reporting framework, organisational structure, strategy, procedures and actions. The notion of transparency refers to timely, reliable, clear and relevant public reporting on its status, mandate, strategy, activities, financial management, operations and performance. In addition, it includes the obligation of public reporting on audit findings and conclusions and public access to information about the Government audit.

An important principle set out in *INTOSAI-P 20: Principles of Transparency and Accountability* is that SAIs should adopt audit standards, processes and methods that are objective and transparent.

**Required:**

- i) Discuss **FIVE (5)** ways in which the Auditor General can adopt standards, processes and methods that are deemed objective and transparent. **(5 marks)**
- ii) Discuss **FIVE (5)** ways the Audit Service can operate economically, efficiently, effectively and in accordance with laws and regulations. **(5 marks)**
- b) After a scrutiny of previous performance audit reports, the Auditor-General has become incensed with the contents of the reports and has tasked you, a Director of Audit at the Ghana Audit Service to recommend factors governing the contents of a performance audit report, the mode and merits of follow-ups.

**Required:**

Write a memo to the Auditor-General on your recommendations.

**(10 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

- a) You have commenced the audit of Atika Ltd, a company involved in the importation and sale of plumbing materials. As part of the audit, you have noticed the following:
- 1) Atika Ltd does not pay its suppliers in Germany through the bank. It relies mostly on the black market for the transfer of funds to its suppliers.
  - 2) Atika only sells its goods in Ghana.
  - 3) On 25 March within the audit year, there was a cash deposit of US\$2,500,000.00 into the forex account of Atika Ltd.
  - 4) On 30 March the company transferred the following:
    - US\$499,999.99 to an unknown account in Cameroun
    - US\$399,999.99 to an unknown account in Kenya
    - US\$499,999.99 to an unknown account in Niger
    - US\$250,000.00 to the personal account of the Managing Director
    - US\$150,000.00 to an unknown company.
  - 5) The company's general ledger shows a revenue of GH¢1,560,000.00.
  - 6) The import documentations show purchases of GH¢36,000,000.00. There is no evidence of payment for the goods from Atika Ltd's bank accounts.
  - 7) The closing inventory amounted to GH¢2,145,200.00

The Audit Manager has raised the issue of money laundering considering the nature of the transactions above.

### Required:

As the Partner on the engagement,

- i) Explain to the team members the various stages of money laundering and show how the above transactions confirms the client's engagement in money laundering. **(6 marks)**
  - ii) What are the obligations on the firm for money laundering? **(4 marks)**
- b) In conducting an audit, audit procedures must be planned and performed so as to consider all significant transactions occurring after the reporting period. This means that the audit work does not stop with events only up to the reporting period. There are two key dates after the reporting period; the date of the audit report and the date that the financial statements are issued.

### Required:

Describe the auditor's responsibility for subsequent events occurring between:

- i) The year-end date and the date the auditor's report is signed; and
  - ii) The date the auditor's report is signed and the date the financial statements are issued. **(5 marks)**
- c) On 1 July 2022, Obidi Ltd introduced a ten-year warranty on all sales of its cooking equipment. Total sales of the cooking equipment for the year ended 31 March 2023 amounted to GH¢2.5 million. The draft Auditor's Report for the year ended 31 March 2023 showed revenue of GH¢5.6 million.

The notes to the financial statements disclosed that since the introduction of the warranty, Obidi Ltd's cooking equipment has been guaranteed to be free from defects under normal household use. As a result, no provision was recognised, as the amount of the obligation cannot be measured with sufficient reliability."

The draft report on the Financial Statements of Obidi Ltd for the year ended 31 March 2023 was unmodified.

**Required:**

As the Managing Partner, comment on the draft report before you.

**(5 marks)**

**(Total: 20 marks)**

## SOLUTION TO QUESTIONS

### QUESTION ONE

a) Ethical issues worth considering:

- **Relationship with Board Chairman**

**Ethical Issue:** The relationship of Mr. Fanfu and the Board Chair of Adepa Ltd poses a threat to the audit as they are too familiar.

**Safeguard:** He is not supposed to have anything to do with the audit work either to supervise or review, his independence will be compromised. Other partners should take charge of the audit.

- **Wife of the quality control Partner**

**Ethical Issue:** The wife of Mr Agyei the quality control partner has an existing contractual relation with Adepa Ltd. This imposes self-interest threat and will affect the independence of his review.

**Safeguard:** Mr Agyei should be replaced as the quality control review. An external quality control reviewer can be employed.

**Ethical Issue:** The loan advanced to her is a normal practice of the company; helping out –growers to produce more and paying back at a later date. There is no self-interest threat in this instance, however, as the quality control partner, this loan might affect his review of the company's receivables.

- **Daughter of the Board Chairman**

**Ethical Issue:** With the daughter of the Board Chairman of Adepa Ltd being an audit trainee, although her contribution to the audit work cannot influence any audit decision, outsiders seeing her as a member of the audit team will raise eyebrows. People may perceive her as not independent from the company and capable of influencing the outcome of the audit.

**Safeguard:** She therefore, has to be dropped from the audit team.

- **Threat of the CEO**

**Ethical Issue:** Threat of the chief executive can impede the independence of the firm. Prompting the firm to hurriedly work on the audit without proper due care. That is intimidating threat.

**Safeguard:** The managers of the audit should have a discussion with him and explain to him why the audit can sometimes delay. They should let him know that he can also assist to speed up the audit work for its completion in good time by impressing on his staff to help the auditors by do the following:

- ✓ Responding quickly to audit queries
- ✓ Quickly making available accounting records
- ✓ Providing the necessary supporting documents in good time
- ✓ Making themselves available when necessary for discussions.

(Any 3 points @ 2 marks each = 6 marks)



b) A firm might act for two clients that are in direct competition with each other. The firm has a professional duty of confidentiality, and so will not disclose confidential information about one client company to its competitor. Again the test is whether a reasonable and informed third party' would consider the conflict of interest as likely to affect the judgment of the firm.

The approach that Kankam and Partners should take will be a matter of judgment and should reflect the circumstances of the case. Where the acceptance or continuance of an engagement would materially prejudice the interest of any client, the appointment should not be accepted or continued.

In other cases, possible safeguards might include the following:

Giving careful consideration to whether or not it is appropriate to accept an assurance engagement from a new client that is in direct completion with an existing client, it may be appropriate to decline the offer from the potential new client.

- Careful management of the client, for example by ensuring that different members of staff are used on the two engagements.
- Full and frank disclosure to the clients of the potential conflict, together with suitable steps by the firm to manage the potential conflict of interest.
- Procedures to prevent access to information (such as physical separation of the teams and confidential and secure data folio). Such an approach is known as creating 'Chinese walls'.
- Establishing clear guidelines on security and confidentiality and the use of confidentiality agreements.
- Regular review of safeguards in place
- Advising one or both clients to seek additional independent advice.
- Education of staff about confidentiality issues.

**(Any 2 points @ 2 marks each = 4 marks)**

c) Responsibilities of engagement partners for managing and achieving quality audits:

- The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm's culture and expected behavior of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

- The engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behavior of engagement team members, including emphasizing:
  - ✓ That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
  - ✓ The importance of professional ethics, values and attitudes to the members of the engagement team;
  - ✓ The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
  - ✓ The importance of each engagement team member exercising professional skepticism throughout the audit engagement.
- The engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work.
- The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence that are applicable given the nature and circumstances of the audit engagement.
- The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address:
  - ✓ Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
  - ✓ Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
  - ✓ The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.
- If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action.
- The engagement partner shall remain alert throughout the audit engagement, through observation and making inquiries as necessary, for

breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team.

**(Any 5 points @ 2 marks each = 10 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Question 1a.

Candidates were required to discuss three (3) ethical issues worth considering in a given scenario and for each recommend a possible safeguard. Generally, performance of candidates was above average. Candidates could identify the ethical issues. However, a few could not provide the safeguards.

Question 1b

Candidates were to discuss two (2) measures they would put in place in their capacity as audit manager of an audit firm to avoid disclosing confidential matters of companies in competition with each other. This section had been very well answered by most candidates.

Question 1c.

Candidates were required to in accordance with IAS 220 (Revised): Quality management for an audit of financial statements, explain five (5) responsibilities of the engagement partners for managing and achieving quality on audits.

With the exception of a few candidates who wrote on the general role of the managing partners in the conduct of audit, this section had been very well answered.

## QUESTION TWO

### a) Lawsuit : Requirements For Amendments

A key supplier is suing Omega Ltd for GH¢1 million; the company has made contingent liability disclosures. However, subsequent to the year end the supplier agreed to settle at GH¢0.6 million and it is likely the company will agree. Although the settlement was agreed after the year end, it provides further evidence that the company had a present obligation as at 31 December.

The financial statements should be adjusted with the contingent liability disclosures being removed and instead a provision of GH¢0.6 million being recorded.

The following **audit procedures** should be applied to form a conclusion as to the level of the adjustment:

- The auditor should contact the company's lawyers to ask their view as to whether the settlement is probable and whether GH¢0.6 million is the likely amount.
- Review the correspondence with the supplier to confirm that the amount they are willing to accept is in fact GH¢0.6 million.
- Discuss with management as to whether it is probable that they will pay this sum and obtain a written representation confirming this.

### Impact on Audit Report

The sum being claimed is GH¢1 million but the probable payment is GH¢0.6 million, this is material as it represents 8% of profit (0.6/7.5) and hence management should provide for this amount.

If management refuse to provide then the audit report will need to be modified. As management has not complied with *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* and the error is material but not pervasive then a qualified opinion would be necessary.

A basis for qualified opinion paragraph would be required and would need to include a paragraph explaining the material misstatement in relation to the lack of a provision and the effect on the financial statements. The opinion paragraph would be qualified 'except for'.

(7 marks)

### b) Warehouse : Requirements For Amendments

The warehouse has been subject to a flood in late February, the entire inventory has been disposed of and the company has insurance in place. This event occurred after the year end and the flood would not have been in existence at 31 December, and hence this event indicates a non-adjusting event.

The financial statements should not be adjusted; however, if the impact of any uninsured losses are material, then a disclosure of the nature of the event and any estimates of the financial impact may be required. If the amount is not material then it may not be necessary to include any disclosures.

The following **audit procedures** should be applied to form a conclusion as to the extent of any disclosures:

- Discuss the matter with the directors, checking whether the company has sufficient inventory to continue trading in the short term.
- Obtain a written representation confirming that the company's going concern status is not impacted.
- Obtain a schedule showing the inventory destroyed and compare this to the average inventory in the other two warehouses to see if the amount claimed to be damaged is reasonable.
- Review any correspondence from the insurers, confirming the amount of the insurance claim to assess the extent of any uninsured amounts.

### **Impact on Audit Report**

The amount of damaged inventory is likely to be material; however, the company has insurance and so it is only the uninsured level of inventory which should possibly be disclosed.

If disclosures are not required, because the uninsured loss is immaterial, then there will be no reporting implications for the audit report.

If disclosure of this subsequent event is required and management refuse to make these disclosures, then the audit report will need to be modified with a qualified 'except for' opinion.

If the impact of the uninsured level of inventory is such that the company's going concern status is impacted, consideration should be given to modifying the audit report opinion. This would involve including an emphasis of matter paragraph drawing attention to the possible risk in relation to going concern.

(7 marks)

### **c) Receivable: Requirement for Amendments**

A customer, owing GH¢0.3 million at the year end, is experiencing significant going concern difficulties. This information was received after the year end but provides further evidence of the recoverability of the receivable balance at the year end. Under *IAS 10: Events after the Reporting Period*, if the customer is experiencing cash flow difficulties just a few months after the year end, then it is highly unlikely that the GH¢0.3million was recoverable as at 31 December.

The receivables balance is overstated and consideration should be given to adjusting this balance, if material, through the use of an allowance for receivables or by being written off.

The following **audit procedures** should be applied to form a conclusion as to the level of the adjustment:

- The correspondence with the customer should be reviewed to assess whether there is any likelihood of payment.
- Discuss with management as to why they feel an adjustment is not required and obtain a written representation
- Review the post year-end period to see if any payments have been received from the customer.
- Debtors circularization

### **Impact on Audit Report**

The receivable of GH¢0.3 million is not material as it represents 4% of profit (0.3/7.5) and 0.4% of revenue (0.3/78) and therefore, although overstated, it does not require adjustment. However, the GH¢0.3m should be noted in the summary of unadjusted errors.

As the error is immaterial then no amendment is required to the audit opinion.

(6 marks)

(Total: 20 marks)

### **EXAMINER'S COMMENTS**

This question is made up of three (3) scenarios with the following headings: Lawsuit, warehouse and account receivable. Candidates were to:

- Discuss whether the financial statement required amendment.
- Describe audit procedures that should be performed in order to form a conclusion on the amendment and
- Explain the impact on the audit report should the issues remain unresolved.

#### **Lawsuit**

Requirement 'a' and 'b' in relation to this scenario had been well attempted by most candidates with the exception of few candidates who could not establish a clear difference between adjusting and non-adjusting events.

Knowledge in IAS 37: Provision, contingent liabilities and contingent assets is important in answering the requirement 'c'.

Some of the candidates could not differentiate between modified and unmodified audit opinion.

#### **Warehouse**

Some candidates could not realise that the issue was a non-adjusting events and will need disclosure if it is material.

The requirement 'b' part had been very well attempted by most candidates.

Requirement 'c' part, had not been well attempted by most candidates.

#### **Account Receivable**

Knowledge in IAS 10: Events after the reporting period is needed to answer this part (i.e Requirement 'a') of the question. Some candidates could not realise that it was an adjusting event. Requirement 'b' part had been well attempted by most candidates. Requirement 'c' part of this scenario had not been well attempted by some candidates.

## QUESTION THREE

Briefing notes to: Audit Staff

From: Audit Partner

**Subject: Key Audit Matter**

### Introduction

This briefing notes will address the meaning of key audit matter and scope of entities in which ISA 701 is applicable as adopted by the ICAG.

Also, factors to be considered in determining key audit matters shall also be considered.

Finally, the interaction between KAMs, *ISA 570 Going Concern* and *ISA 705 Emphasis of matter paragraph and other matter paragraph* will be duly considered too.

a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Key audit matters (KAMs) must be communicated:

- In the auditor's report of all Public Interest Entities (PIEs); and
- When the auditor is required by law or regulation to communicate key audit matters in the auditor's report.

(3 marks)

### Entities in which ISA 701 is applicable

In Ghana, the following entities meet the definition of Public Interest Entities for the purpose of complying with the communication of KAMs:

- Companies that have made invitations to the public for shares, whether listed or unlisted;
- Mutual Funds licensed by the Securities and Exchange Commission (SEC);
- Investment Advisors licensed by SEC who are also Fund Managers;

- Unit Trusts licensed by SEC;
  - Companies operating the Basic National Social Security Scheme (Tier 1)
  - Trust Companies licensed by the National Pensions Regulatory Authority (NPRA) and charged with the responsibility of administering private pension schemes under Tier 2 and Tier 3;
  - Private pension schemes registered by NPRA under the Tier 2 and Tier 3 pension schemes
  - Deposit-taking institutions regulated by the Bank of Ghana such as:
    - ✓ Banks,
    - ✓ Savings and Loans Companies,
    - ✓ Finance Houses,
    - ✓ Rural and Community Banks, and
    - ✓ Deposit -taking Microfinance Institutions;
    - ✓ Life Insurance Companies;
    - ✓ Non-Life Insurance Companies;
    - ✓ Re-insurance Companies; and
    - ✓ State-owned enterprises regulated by State Enterprises Commission
- (Any 2 points @ 1 mark each = 2 marks)**

**b) Factors to be considered in determining key audit matters**

ISA 701 explains that in determining KAMs, the auditor shall take into account:

- Areas of higher assessed risk of material misstatement, or significant risks;
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and
- The effect of significant events or transactions that occurred during the period.
- The auditor determines which of the above matters were most significant in the audit, and hence are the key audit matters.

**(3 points @ 1 mark each = 3 marks)**



**c) Interaction between**

**i) KAMs and ISA 705**

Matters giving rise to a **modified opinion in accordance with ISA 705** are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the KAM section of the auditor's report.

KAMs are not a substitute for expressing a modified opinion in accordance with ISA 705. Any matter that requires a modified opinion shall be explained in the basis for modification paragraph rather than as a KAM. Also, KAMs are not presented when the auditor disclaims an opinion under ISA 705.

**(3 marks)**

**ii) KAMs and ISA 570**

Matters giving rise to a **material uncertainty related to going concern in accordance with ISA 570** are by their nature key audit matters.

Where a material uncertainty related to going concern exists, the auditor shall insert a separate paragraph into the auditor's report entitled 'Material uncertainty in relation to going concern' and describe the material uncertainty where auditor concludes that managements has adequately disclosed the material uncertainty in the financial statements. Once there is no adequate disclosure, this will result in the modification of the auditor report under ISA 705 which is outside the scope of KAM.

**(3 marks)**

**iii) KAMs and Emphasis of Matter**

The objective of an emphasis of matter paragraph is to draw attention to matters included (and adequately presented) in the financial statements and related disclosures, which, in the auditor's judgement, are fundamental to users' understanding of the financial statements (e.g. a subsequent event).

ISA 706 has been revised to reflect the fact that matters needing highlighting as fundamental to the users' understanding may now be determined as KAMs. The auditor may wish to highlight or draw further attention to their relative importance by listing them as the first KAM, or by including additional information in the KAM description.

An emphasis of matter paragraph shall only be used to highlight matters that are not considered to be KAMs (and hence are not described/highlighted in the KAM section of the auditor's report).

**(3 marks)**

#### **iv) KAMs and Other Matters**

Other matters as defined by ISA 706 relate to matters other than those presented or disclosed in the financial statements e.g. the fact that prior year financial statements were audited by a predecessor auditor. Given that KAMs are always drawn from matters relating to the presented and disclosed financial statements there shall be no overlap between 'other matters' and KAMs. **(3 marks)**

In conclusion, KAMs are defined with reference to the auditor, NOT the user – i.e. the areas that required significant auditor attention in performing the audit.

KAMs are a standard element of all unmodified auditor's reports for Public Interest Entities. KAMs therefore DO NOT represent a modification to the auditor's report and must not be confused with modified audit opinion, emphasis of matter or other matters, all of which are determined with reference to the USER, not the auditor.

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

This question is in three parts, that is a, b and c. A given scenario was followed by the questions in the three parts:

The question required candidates to prepare briefing notes for the staff of their audit firm, acting in the capacity of a partner in charge of training of the audit firm regarding the following:

- a. Key Audit matters (KAM) and state two (2) categories of entities in Ghana which IAS 701 is applicable as adopted by ICAG
- b. Factors to be considered in determining KAMs and c. Interaction between:
  - i) KAMs and ISA 705 (revised): modification of the opinion in the independent Auditor's report.
  - ii) KAMs and ISA 570 (revised): Going concern
  - iii) KAMs and emphasis of matter
  - iv) KAMs and other matters.
- a) Most candidates could explain the KAMs, however, most candidates wrongly identified private enterprises as an example of public interest entities (PIEs). Knowledge in ISA 701 is relevant in answering this part of the question.
- b) Knowledge in ISA 701 is relevant in answering this part of the questions.
- c) (i) Knowledge in ISA 705 is needed to answer this part of the question. Candidates failed to realise that KAMs are not a substitute for expressing a modified opinion. They also failed to realise that any matter that requires a modified opinion shall be explained in the basis for modification paragraph rather than as a KAM. Candidates failed to realise that matters giving rise to a modified opinion as per ISA 705 are by their nature key audit matters, however, such matters shall not be described in the KAM section of the auditor's report.

c) ii. Candidates' knowledge in ISA 570 is relevant to answer this part of the question. Candidates could not give appropriate relationship between KAM and Going concern in accordance with ISA 570. Candidates failed to state that material uncertainty related to going concern are by their nature key audit matters, however, where such material uncertainty exists, the auditors should insert a separate paragraph into the auditor's report called material uncertainty in relation to going concern and describe such uncertainty, having satisfied himself that management has adequately disclosed the material uncertainty in the financial statement.

C. iii. KAMs and emphasis of matter. Knowledge in ISA 706 is needed to answer this part of the question. Candidates could explain KAMs and emphasis of matter, but failed to explain their relationship. They failed to explain that an emphasis of matter paragraph shall only be used to highlight matters that are considered to be KAM (and for that matter are not described / highlight in the KAM section of the auditor's report.)

C. iv. KAMs and other matters knowledge in ISA 706 is necessary in answering this question. Some candidates could not explain the difference between KAMs and other matters. Other matters relate to matters other than those presented or disclosed in the financial statements e.g. the fact that prior year financial statements were audited by a predecessor auditor. KAMs, on the other hand are always drawn from matters relating to the presented financial statements and disclosures made.

## QUESTION FOUR

a)

i) Ways in which the Auditor-General adopt audit standards, processes and methods that are objective and transparent.

- Auditor-General meet their legal obligation with regards to their audit mandate and required reporting
- Auditor-General should adopt standards and methodologies that comply with INTOSAI's fundamental auditing principles as set out in ISSAIs
- Auditor-General should communicate what those standards and methodologies are and how they comply with them
- Auditor-General should communicate scope of the audit activities that they undertake under their mandate, and on the basis of their risk assessment and planning processes
- Auditor-General should communicate with the audited entity about the criteria on which they will base their opinions.
- Auditor-General should keep the audited body informed about their audit objectives, methodology and findings
- The findings of an Audit should be subject to procedures involving discussions and responses from the audited entity.

**(Any 5 points @ 1 mark each = 5 marks)**

ii) The Audit service can manage their operations economically, efficiently, effectively and in accordance with laws and regulations and reporting publicly on these matters in the following ways:

- Employ sound management practices, including appropriate internal controls over their financial management and operations. This may include internal audits and other measures.
- Financial statements are made public and are subject to external independent audit or parliamentary review.
- Assess and report on their operations and performance in all areas, such as financial audit, compliance audit, jurisdictional activities (Auditor-General constituted as Courts), performance audit, programme evaluation and conclusions regarding government activities.
- Maintain and develop skills and competencies needed to perform the work to achieve their mission and meet their responsibilities.
- Make public what their total budget is and report on the origin of their financial resources (parliamentary appropriation, general budget, ministry of finances, agencies, fees) and how those resources are used.
- Measure and report on the efficiency and effectiveness with which they use their funds.
- May also use audit committees, made up of a majority of independent members, to review and provide input to their financial management and reporting processes.

- May use performance indicators to assess the value of audit work for Parliament, citizens and other stakeholders.
- Follow up their public visibility, outcomes and impact through external feedback.

(Any 5 points @ 1 mark each = 5 marks)

b)

TO : Auditor-General

From: Deputy Auditor-General

Date : 6th April 2023

**Subject: RECOMMENDATION FOR FACTORS FOR PERFORMANCE AUDIT REPORT AND FOLLOW-UPS**

I refer to your request on the above dated 2<sup>nd</sup> April 2023, intending to develop a format for performance audit reports and follow-ups to address issues noted from the review of previous audit reports.

My recommendations seeking to address the issue are structured as follows:

1. Factors governing the content of performance audit report
2. Modes and merits of follow-ups

The recommendations are based on research from Accounting Standards and manuals. The reference materials are listed at the end of this report.

**Factors governing the content of performance audit reports:**

Performance audit report must be comprehensive, convincing, timely, reader-friendly and balanced.

- To be **comprehensive**, a report should include all the information needed to address the audit objective and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions.
- To be **convincing**, it should be logically structured and present a clear relationship between the audit objective, criteria, findings, conclusions and recommendations. All relevant arguments should be addressed.
- **Timeliness** of the report is paramount. Management need the report on time to correct whatever deviations their operation might have caused, to enable them achieve their objectives. The audit work must be reviewed on time and the content proof read before released, not ignoring call-over of figures.
- It should **clearly** answer the audit questions or explain why this was not possible. Alternatively, the auditors should consider reformulating the audit questions to fit the evidence obtained and thus arrive at a position where the questions can be answered. The audit findings should be put

into perspective, and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should explain why and how problems noted in the findings hamper performance in order to encourage the audited entity or report user to initiate corrective action. The report should be as clear and concise as the subject matter permits and phrased in unambiguous language. As a whole, it should be constructive, contribute to better knowledge and highlight any necessary improvements.

- **Objectivity**  
The report should include information about the audit objective, audit questions and answers to those questions, the subject matter, criteria, methodology, sources of data, any limitations to the data used, and audit findings.
- Where appropriate, it should include recommendations for improvements to performance.  
In a performance audit, the auditor's report their findings on the economy and efficiency with which resources are acquired and used and the effectiveness with which objectives are met. Reports may vary considerably in scope and nature, for example assessing whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements.

#### **Modes & Merits for follow-ups**

- Auditors should follow up previous audit findings and recommendations wherever appropriate. Follow-up should be reported appropriately in order to provide feedback to the legislature together, if possible, with the conclusions and impacts of all relevant corrective action.
- Follow-up refers to the auditors' examination of corrective action taken by the audited entity, or another responsible party, on the basis of the results of a performance audit.
- It is an independent activity that increases the value of the audit process by strengthening the impact of the audit and laying the basis for improvements to future audit work.
- It also encourages the audited entities and other users of reports to take the latter seriously, and provides the auditors with useful lessons and performance indicators. Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.

- When conducting follow-up of an audit report, the auditor should concentrate on findings and recommendations that are still relevant at the time of the follow-up and adopt an unbiased and independent approach.
- Follow-up results may be reported individually or as a consolidated report, which may in turn include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas. Follow-up can contribute to a better understanding of the value added by performance auditing over a given time period or subject area.

(10 marks)

(Total: 20 marks)

### EXAMINER'S COMMENTS

a. i) This part of the question required candidates to list five(5) ways in which the auditor general can adopt standards, processes and methods that are deemed objective and transparent from a given scenario. This question was straight forward and as such most candidates answered them well. However, some candidates focus on defining objectives and transparency rather than ways by which the auditor general can adopt standards, processes and methods.

a. ii) candidates were to discuss five (5) ways the Audit Service can operate economically, efficiently, effectively and in accordance with laws and regulations from a given scenario.

Most candidates did not pay attention to the requirement and were, instead defining the 3Es (I.e. economy, efficiency and effectiveness). Candidates lost points because they focused on the public service and not the Audit Service.

b. From a given scenario, candidates were required to write a memo to the Auditor General to recommend factors governing the contents of a performance audit report and the mode and merits of follow-ups.

Most candidates answered this question poorly. Majority of the candidates did not address the requirement of the question to recommend factors governing the contents of a performance audit report and the mode and merit of follow-ups.

Most candidates went on to define the 3Es which was not part of the requirement of the question.

Candidates however, scored marks for the format of a memo.

## QUESTION FIVE

a)

i) The three stages of money laundering are as follows;

**Placement:** This is when the criminal places illegal cash in what appears to be a legitimate business transaction. The deposit of US\$ 2,500,000 into the forex account of the company may suggest the placement of illegal proceeds into the company.

**Layering:** In this stage, the funds move through several transactions or 'layers'. The transactions will be complex and may move the funds between different countries to make the source of the illegal funds more difficult. The transfers on the 30 March suggests the layering of the funds.

**Integration:** In this final stage, the funds are moved back into the economy to convert them into a legitimate form. The purchase of goods suggests the integration of the funds back into the economy.

(3 points @ 2 mark each = 6 marks)

ii) Obligations on firms regarding money laundering:

1. Appoint a money laundering reporting officer whose responsibility is to receive reports on suspected money laundering activities from other employees and report them to the appropriate authorities.
2. Establish procedures with the firm for reporting any suspicion of money laundering by client companies.
3. Training and educating staff in procedures for detecting and reporting suspicions of money laundering activities.
4. Put in place systems, controls and procedures to ensure that the firm is not used for money laundering purposes.

(4 points @ 1 mark each = 4 marks)

**b) ISA 560 Subsequent Events responsibilities**

i) **Period between the year-end date and the date the auditor's report is signed** The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

(2 marks)



**ii) Period between the date the auditor's report is signed and the date the financial statements are issued**

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.

However, if a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused him to amend the auditor's report, the auditor shall: discuss the matter with management, determine whether the financial statements need amendment and, if so, inquire how management intends to address the matter in the financial statements.

If management amends the financial statements, the auditor shall carry out the necessary audit procedures, extend the subsequent events testing to the date of the new auditor's report, and provide a new auditor's report on the amended financial statements.

**(3 marks)**

c) The sales of cooking equipment represent GH¢2.5 million of revenue for the year which is 44.6% of total revenue and therefore material to the accounts.

The conditions for recognising a provision in the financial statements in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets* are that there is a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Obidi Ltd's management should recognise a provision in the financial statements for the year ended 31 March 2023 if the conditions are met. However, the disclosure in the accounts is as a contingent liability – but it is very unlikely that the company cannot make a reliable estimate of the obligation.

If a provision is not made for the warranty then the auditor's opinion would be qualified on the basis of a material misstatement ('except for') in respect of non-compliance with the requirements of IAS 37.

**(5 marks)**

**(Total: 20 marks)**

## **EXAMINER'S COMMENTS**

a. i) From a given scenario, candidates acting as the partner of an engagement are to explain to the team members the various stages of money laundering and show how the transactions confirm the client's engagements in money laundering.

Most candidates were able to answer this question very well. This is a popular topic

ii) From the given scenario and acting as the partner on an engagement, candidates were to state the obligations of the firm for money laundering. This part had also been very well answered by most of the candidates.

b. From a given scenario, candidates were to describe the auditor's responsibility for subsequent events occurring between the year - end date and the date auditors report is signed.

Knowledge in ISA 560, subsequent events responsibilities is relevant in answering this question.

Some of the candidates were not able to answer this question very well.

c) From a given scenario and acting as managing partner of an audit firm, candidates are to comment on the draft report before them.

Candidates' knowledge in IAS 37, provisions, contingent liabilities and contingent assets is relevant in answering this question. Some candidates could not answer this question very well.

## **CONCLUSION**

- Candidates must learn the standards very well in order to apply them where necessary in answering the questions.
- Candidates must give themselves enough time to prepare well before attempting the examinations.
- Candidates must ensure that their hand writing is legible.

