

**MARCH 2024 PROFESSIONAL EXAMINATIONS
AUDIT & ASSURANCE (PAPER 2.3)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

CHIEF EXAMINER'S GENERAL COMMENTS

The standard of the paper was generally good covering all the syllabus. The questions were practical and within the syllabus in terms of structure and weightings. The paper was not overloaded and broadly free from ambiguities, errors and typing mistakes.

PERFORMANCE OF THE CANDIDATES

The overall performance was good. A total of One hundred and ten (110) candidates sat for the examination, out of this total ninety-one (91) passed and Nineteen (19) failed. In terms of percentages, the pass rate was 82.7% compared to 85.5% in November 2023.

STRENGTHS & WEAKNESSES OF CANDIDATES

Strengths

Most Candidates demonstrated strengths in questions 1, 3 and 5. Those who attempted questions 1(a), 2(b), 3(a) and 4 scored higher marks due to high quality of teaching by the tuition providers and good preparation of candidates.

Weaknesses

However, most candidates struggled to answer the following questions:

- Question 1(b) (i) Distinction between audit strategy and plan and their contents.
- Question 4(a) significant issues confronting national standard setting bodies and International Auditing and Assurance Standards Board (IAASB)
- Question 2(a) (i) three circumstances BoG may appoint an auditor, most candidates struggled to answer since ACT 930 Section 82. (1) specifically gives one main reason for the appointment which states "A bank or specialised deposit-taking institution which for a continuous period of three months is without an auditor shall notify the BoG. (2) The BoG shall upon being notified under subsection (1) appoint an auditor for that bank or specialised deposit-taking institution".

However, these weaknesses did not affect majority of candidates who have prepared well to secure a pass mark of fifty (50).

QUESTION ONE

- a) Management of Bagabu Ltd has a filing system that is largely manual. Their external auditors have expressed concern about how to obtain appropriate and sufficient evidence to support their opinion.

Required:

State **FIVE (5)** ways management of Bagabu Ltd can support the auditors to obtain appropriate and sufficient audit evidence to support their opinion. **(5 marks)**

- b) *ISA 200: Overall Objectives of Independent Auditor and the Conduct of an Audit* and *ISA 300 – Planning an Audit of Financial Statements* require that auditors should plan in order to conduct the audit in an effective, efficient and timely manner. The plan should include overall audit strategy and detailed audit plan.

Required:

In reference to the statement above:

- i) Clearly distinguish between *audit strategy* and *audit plan*. **(5 marks)**
ii) Identify the contents of audit strategy and audit plan. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

- a) In 2018, the Bank of Ghana (BoG) revoked the licenses of five struggling banks in Ghana and merged them to form a new bank. Following the merger, the BoG appointed an external auditor for the new bank, as the previous auditors of the merged banks were no longer able to continue in their roles.

However, in 2019, the BoG terminated the appointment of the external auditor for the new bank due to concerns about the independence and competence of the auditor. As a result, the BoG appointed new external auditors for the bank.

Required:

- i) Discuss **THREE (3)** circumstances under which BoG may appoint an auditor to audit the financial statements of a bank. **(5 marks)**
ii) Discuss **THREE (3)** circumstances under which BoG may terminate the appointment of an auditor to audit the financial statements of a bank. **(5 marks)**
- b) Abansro Corporation is a publicly traded company in the manufacturing industry. The company is yet to appoint an auditor to replace its previous auditor. A member of the board of Abansro Corporation, who is also a friend of the owners of an audit firm, referred the audit firm to Abansro Corporation. The board approved the appointment of the audit firm without considering the potential audit risks associated with the referral.

The audit firm conducted the audit for the year 2022, and the audit opinion issued was unqualified. However, in the course of 2023, it was discovered that there were material

misstatements in the financial statements that were not detected by the audit firm. These misstatements resulted in a significant loss for the company and its shareholders.

As a result, Abansro Corporation faced legal action from its shareholders for the losses incurred due to the misstatements. The audit firm was also held liable for negligence and breach of professional duty.

Required:

- i) Describe **THREE (3)** audit risks for a board member referring his friend who is the owner of an audit firm to be appointed by Abansro Corporation. **(6 marks)**
- ii) What measures should have been undertaken by the Auditors to mitigate the issues associated with this engagement. **(4 marks)**

(Total: 20 marks)

QUESTION THREE

- a) Galito Ltd is a Ghanaian company that operates in multiple industries and has several subsidiaries. Due to the complexity of its operations, its inventories and properties are scattered across the country and used by any of its subsidiaries.

Required:

As the auditor of Galito Ltd, explain **FIVE (5)** audit procedures to help obtain sufficient and appropriate audit evidence for its inventories. **(10 marks)**

- b) *ISA 500: Audit Evidence* identifies 7 main testing procedures. One of these is external confirmation.

Required:

In reference to the statement above:

- i) List **FOUR (4)** examples of external confirmation. **(2 marks)**
- ii) For each of the examples in (i) above, explain: **ONE (1)** audit assertion that the external confirmation supports, and **ONE (1)** audit assertion that the external confirmation does not support. **(8 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Santom Ltd is a global company that produces and sells consumer electronics. In the past year, Santom Ltd has faced several challenges, including the COVID-19 pandemic, supply chain disruptions, and increased regulatory scrutiny. Recent global events have raised significant audit issues for external auditors.

The national standard-setting bodies and the International Auditing and Assurance Standards Board (IAASB) are currently dealing with several significant audit issues.

Required:

Discuss **FIVE (5)** of these significant audit issues. **(10 marks)**

- b) There are similarities and differences between the responsibilities of internal and external auditors. Both internal and external auditors have responsibilities relating to the prevention, detection and reporting of fraud, for example, but their responsibilities are not the same.

Required:

In reference to the statement above, explain the difference between the responsibilities of internal auditors and external auditors in relation to:

- i) Prevention and detection of fraud. **(5 marks)**
ii) Reporting of fraud. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Atiko Audit firm is the external auditor of Benkum Ltd, a company operating in the oil and gas sector. Benkum Ltd is listed on the Ghana Stock Exchange. On completing the audit for the year ended 31 December 2022, the following issues were brought to the attention of the senior partner:

- 1) On 25 February 2023, Benkum agreed with the workers' union to increase the pay of all its employees by 10%, backdated to 1 July 2022. No provision for this has been made in the financial statements.
- 2) One of the company's oil tankers shipwrecked at Cape Three Points on the western side of Ghana. There is a risk of serious oil spillage which could have a significant effect on the future of the company. Further information will not be available until after the auditor's report has been signed.

Required:

- i) State **TWO (2)** types of the event identified by *ISA 560: Subsequent Events* in relation to the scenario above. **(2 marks)**
ii) What further action should Atiko Audit firm take concerning each of the above issues? **(8 marks)**

- b) Automaga Ltd has recently acquired the controlling interest in Alkars Ltd, who are importers of car spare parts. In reviewing the organisational structure of Alkars Ltd, Automaga Ltd noticed a weakness in the procedures for the signing of cheques and the operation of the petty cash system. Automaga Ltd engaged you as the company's auditor and requested that you review the controls over cheque payments and petty cash. Cheques are drawn almost every week and the petty cash account normally has a working balance of about GH¢600, and GH¢1,200 is expended from the fund each month.

Required:

Prepare a letter to Automaga Ltd highlighting your recommendations for good internal control procedures for:

- i) Cheque payments **(5 marks)**
- ii) Petty cash **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

- a) Management has the primary responsibility for preparing the financial statements and ensuring that they are accurate, complete, and in compliance with applicable accounting standards and regulations. However, external auditors are responsible for providing an independent opinion on the fairness and accuracy of the financial statements.

To obtain appropriate and sufficient evidence to support their opinion, external auditors rely on the management of the company to provide them with accurate and complete financial statement data. Management has a critical role to play in ensuring that the auditor has access to all relevant information needed to conduct the audit.

To fulfill this responsibility, management should:

- **Provide complete and accurate financial statement data:** Management should ensure that all financial information, including supporting documents and records, is complete and accurate. This includes ensuring that all transactions are properly recorded, classified, and disclosed in the financial statements.
- **Provide access to all relevant information:** Management should provide the auditor with access to all relevant information needed to conduct the audit. This includes access to personnel, documents, and records related to the financial statements.
- **Provide timely responses to auditor inquiries:** Management should respond promptly and completely to all inquiries made by the auditor. Any discrepancies or issues identified during the audit should be promptly addressed by management.
- **Implement effective internal controls:** Management should implement effective internal controls to ensure the accuracy and completeness of the financial statements. This includes ensuring that the internal control system is properly designed, implemented, and monitored.
- Overall, management plays a critical role in ensuring that the auditor obtains appropriate and sufficient evidence to support their opinion on the financial statements. By providing complete and accurate financial statement data, access to all relevant information, and implementing effective internal controls, management can help to ensure that the auditor is able to provide an independent and reliable opinion on the financial statements.

(5 points @ 1 mark each = 5 marks)

b)

i) Difference between audit strategy and audit plan

Audit strategy sets the overall scope, timing and direction of an audit and guides the development of the more detailed audit plan.

Audit plan is more detailed process which set out the work to be done in order to achieve the audit strategy. While audit strategies are audit assessments done by the senior audit personnel to determine the overall audit approach and risk nature of the audit, audit plan is a set of instructions to audit team specifying the audit procedures that should be performed in each area of the audit

(2.5 marks each = 5 marks)

ii) **Audit strategy entails the following:**

- Determines the characteristics of the engagement that define its scope such as:
- The reporting standards applying to the audit
- Industry specific reporting requirement
- Reporting objectives of the engagement
- Reporting deadlines
- Nature of communications and reports required
- Factors which will determine the focus of the audit
- Materiality
- Risk assessment
- The audit approach – whether relying on internal control. The extent of test to perform etc.
- Any recent developments in relation to the entity, the industry or financial Reporting requirements
- Determining the nature, the extent and timing of the resources from the results of the above
- Which staff and how many to use
- Which areas of the audit to use them
- How are they to be managed, supervised and directed

Audit plan on the other hand deals with

- Procedures to be used in order to assess the risk of misstatement in the entity's records and financial statement etc.
- Materiality assessment
- Preliminary analytical procedures
- Detailed risk assessment
- Audit procedures in response to assessed risks
- Audit plan is set in a series of instructions to audit team to address the concerns of audit strategy.

(Any 10 points @ 1 mark each = 10 marks)

(Total: 20 marks)

QUESTION TWO

a) Under the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) in Ghana, the Bank of Ghana (BoG) has the power to appoint and terminate the appointment of external auditors for banks and specialized deposit-taking institutions (SDIs).

i) **Appointment of Auditors:**

The BoG may appoint an auditor to audit the financial statements of a bank:

1. The bank has not appointed an auditor within the prescribed period;
2. The auditor appointed by the bank has resigned or been removed; or
3. The BoG is of the opinion that the appointment of the auditor by the bank is inappropriate.

In exercising this power, the BoG may appoint an auditor who meets the qualifications prescribed by the Act, such as being a firm of chartered accountants registered and Licensed with the Institute of Chartered Accountants Ghana (ICAG).

(5 marks)

ii) **Termination of Appointment of Auditor:**

The BoG also has the power to terminate the appointment of an auditor if:

The auditor resigns;

1. The auditor is removed by the bank;
2. The auditor's license is suspended or revoked by the ICAG; or
3. The BoG is of the opinion that the auditor is unable to perform their duties or is not independent.

If the BoG terminates the appointment of an auditor, the bank is required to appoint a new auditor within 30 days.

In addition to the above, the BoG may also require a bank/SDI to change its external auditor if it has concerns about the auditor's independence or competence.

(5 marks)

Overall, the BoG's power to appoint and terminate the appointment of external auditors for banks and SDIs is a key regulatory tool to ensure that the financial statements of these institutions are audited by competent and independent auditors in accordance with the relevant laws, regulations, and standards.

b)

- i) The situation you have described raises several concerns about the potential risk associated with accepting this client.
 - Firstly, the referral of the audit firm by a board member who is also a friend of the owner could create a perception of a conflict of interest. This could raise questions about the independence and objectivity of the audit firm and could impact the credibility of the audit opinion provided.

- Secondly, if the board member has a personal or financial relationship with the owner of the audit firm, it could create an undue influence on the audit process. This could result in the audit firm being pressured to overlook or downplay any material misstatements or irregularities in the financial statements.
- Thirdly, there could be a potential for a lack of professional skepticism in the audit process. If the audit firm is influenced by the referral relationship, it could result in a less rigorous and thorough audit process, which could increase the risk of material misstatements not being detected.

Overall, the acceptance of this client could result in a high level of audit risk due to potential conflicts of interest, lack of independence and objectivity, and undue influence on the audit process. Therefore, the audit firm must carefully consider these risks and assess whether they can effectively manage and mitigate them before deciding whether to accept the engagement.

(3 points @ 2 marks each = 6 marks)

ii) Measures to be taken by auditor

- Disclose the relationship to the board and shareholders of the company
- The owner of the audit firm should be excluded from the engagement
- The audit should be reviewed by independent Engagement Quality Control Reviewer
- Ensure that competent and experienced staff are assigned for this engagement

(4 points @ 1 mark each = 4 marks)

(Total: 20 marks)

QUESTION THREE

- a) Audit procedures are techniques used by external auditors to obtain audit evidence to support their opinion on the financial statements. Here are some common audit procedures used by external auditors:

Physical verification

Physically verify the existence of the assets at the various locations

Inspection:

The auditor inspects the financial records and accounting documentation of the parent company and its subsidiaries to obtain evidence of ownership of the assets. The auditor also examines the minutes of meetings of the board of directors and management to gain an understanding of significant events and decisions that impact the financial statements.

Observation:

The auditor observes the physical inventory counts conducted by the company's personnel to obtain evidence of the existence and completeness of inventory.

Inquiry:

The auditor inquires about the nature and terms of significant transactions entered into by the company and its subsidiaries. The auditor also inquires about the assumptions and methods used by the company to estimate significant accounting balances, such as the allowance for doubtful accounts and inventory valuation.

Recalculation:

The auditor recalculates the inventory values to ensure that the figures reported are accurate. The auditor compares the cost of inventory to the NRV ensuring that unrelated costs such as abnormal wastage and storage costs are not included in inventory.

Reperformance:

Reperformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Analytical Procedures:

The auditor performs analytical procedures to evaluate the reasonableness of the financial statements. The auditor compares the current year's financial results to prior years and industry benchmarks. The auditor also identifies significant fluctuations and trends in the financial statements and investigates them further.

In conclusion, due to the complexity of Galito Ltd.'s operations, the external auditor has to use a combination of audit procedures to obtain sufficient and appropriate evidence to support their opinion on the financial statements. The auditor's professional judgment and risk assessment of the financial statements are crucial in determining the choice and extent of the audit procedures.

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

b)
i) Examples of external confirmations are:

- Accounts receivable letter
- Legal letter
- Bank report letter
- Inventory held by third parties

(4 points @ 0.5 marks each = 2 marks)

ii) Assertions achieved and not achieved by each example (only one example of each required).

Accounts receivable letter:

This letter provides evidence of the existence of the receivable when a reply is returned from that receivable direct to the auditor.

The letter provides evidence on cut-off because sales or cash receipts recorded in the incorrect accounting period will have to be reconciled to the balance provided by receivables.

The letter does not provide evidence of completeness of the receivables balance because receivables may not query balances which are understated. The letter does not provide evidence of the valuation of the receivables balance because the receivable cannot be expected to list all outstanding balances and external confirmation of the debt does not mean it will be paid.

Legal letter

A legal letter provides evidence as to the existence of claims at the period end as the lawyer will confirm specific claims. However, the letter does not necessarily confirm the valuation of claims due to uncertainty about the future or the completeness of any legal claims as lawyers do not normally provide a list of all claims - they prefer to comment only on claims they are actually asked about.

Bank report letter

A bank confirmation letter provides good evidence on the existence of the company's bank accounts as the bank has confirmed this information in writing. A bank letter cannot necessarily be relied on to provide complete or accurate information. Most banks place a disclaimer on the letter of errors and omissions excepted' indicating that the auditor must review this evidence against other cash and bank evidence obtained.

Inventory held by third parties

A letter from the third party holding the inventory will provide evidence of the existence of that inventory because the third party has confirmed this in writing. However, the letter does not provide evidence regarding the valuation of the inventory; confirming something exists does not necessarily mean it is in good condition.

(8 marks)
(Total: 20 marks)

QUESTION FOUR

a) The national standard-setting bodies and the International Auditing and Assurance Standards Board (IAASB) are currently dealing with several significant audit issues. Some of these issues include:

- **Climate change reporting:** With the increasing focus on sustainability and environmental issues, there is a growing demand for companies to disclose the impact of climate change on their operations. The national standard-setting bodies and the IAASB are working to develop auditing standards that will help auditors assess the accuracy and completeness of climate change reporting.
- **Fraud detection:** Fraud is a significant risk in many organizations, and auditors are responsible for detecting and reporting any fraudulent activities. The national standard-setting bodies and the IAASB are developing standards to enhance the auditors' ability to identify and report fraudulent activities.
- **Cybersecurity:** As companies become more reliant on technology, the risk of cybersecurity threats increases. The national standard-setting bodies and the IAASB are developing standards to help auditors assess the adequacy of a company's cybersecurity controls.
- **Going concern assessments:** The COVID-19 pandemic has had a significant impact on the economy, and many companies are facing financial difficulties. The national standard-setting bodies and the IAASB are developing standards to help auditors assess the ability of companies to continue as a going concern.
- **Non-financial reporting:** Companies are increasingly being asked to disclose non-financial information, such as their impact on society and the environment. The national standard-setting bodies and the IAASB are developing standards to help auditors assess the accuracy and completeness of non-financial reporting.

Overall, the national standard-setting bodies and the IAASB are working to ensure that auditing standards are updated to reflect the changing business environment and the evolving risks faced by companies. This is essential to maintain the integrity of the financial reporting process and to enhance public trust in the audit profession.

(5 points @ 2 marks each = 10 marks)

b) **Prevention, detection and reporting of fraud and error**

External Auditors

Prevention and detection

The external auditors are bound by the requirements of ISA 240. This requires that auditors recognize that fraud and error may materially affect the financial statements and design procedures to ensure that the risk is minimized. The auditors have no specific requirement to prevent or detect fraud. However, they

must maintain professional **scepticism** throughout the audit, recognizing that circumstances may exist that cause the financial statements to be materially misstated.

By conducting the audit in accordance with ISAs the auditor obtains reasonable assurance that the financial statements are free from material misstatement caused by fraud or error. However, due to the nature of fraud the risk of not detecting fraud is higher than the risk of not detecting error.

Reporting

ISA 240 also sets out the requirements in relation to reporting fraud. If auditors suspect or detect a fraud, they must report it on a timely basis to the appropriate level of management.

If management are implicated the matter must be communicated to those charged with governance, unless the fraud necessitates immediate reporting to a third party.

The matter should only be referred to in the audit report if the opinion is modified on those grounds. It may also be that the matter is one which needs reporting to a relevant authority in the public interest. If the auditors feel that this is so, they should seek **legal advice** before taking any action, and request that the entity reports itself. If the directors refuse to make any disclosure in these circumstances, the auditors should make the disclosure themselves.

Internal auditors

Prevention and detection

It is likely that the internal auditors will have a role both in the prevention and detection of fraud. Indirectly, they play a role in their involvement with the **internal controls** of a business, which are set up to limit risks to the company, one of which is fraud. Directly, they may be engaged by the directors to carry out test when a fraud is suspected, or routinely to discourage such activity.

However, if a serious fraud was suspected, a company might bring in **external experts**, such as forensic accountants or the police.

Reporting

If internal auditors discovered issues which made them suspect fraud, they would **report it immediately** to their superiors, who would report to those charged with governance. In the event that an internal auditor suspected top level fraud, he might make disclosure to the relevant authority in the public interest.

(4 points @ 2.5 marks each = 10 marks)

(Total: 20 marks)

QUESTION FIVE

a)

- i) International Accounting Standard (IAS) 10, "Events After the Reporting Period" deals with the treatment in financial statements of events, both favourable and unfavourable, that occur between the date of the financial statements and the date when the financial statements are authorized for issue and identify two types of events:
- those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
 - those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

(2 points @ 1 mark each = 2 marks)

ii)

1) Subsequent event

The payment of the 10% backdated pay increase is **an adjusting event** because it is clear evidence of conditions that existed at the end of the reporting period.

- Atiku should confirm the 10% pay increment by sighting the agreement document.
- Check the computation of the amount outstanding as at the end of the reporting period and
- assess the materiality of the effect on profit.
- They should recommend to the directors to provide for the backdated pay for the period from 1 July to 31 December as a liability in the statement of financial position as at 31 December and to adjust expense accounts in the income statement as appropriate.
- If the directors do not do so then it represents a disagreement. If the amount is material, the auditor's report will need to be modified by way of a qualified ("except for") opinion due to disagreement.

(Determine that it is an adjusting event 1 mark, confirmation 1 mark, assessment of materiality and recommendation to directors 1 mark, kind of report to issue 1 mark = 4 marks)

2) Subsequent event

This is a non-adjusting event (IAS 10). On the basis of the preliminary information, it would appear to be of a magnitude to require disclosure. The disclosure should describe the nature of the event and an estimate of its financial effect (i.e. the cost of cleaning up operations and of liability to pay compensation) or a statement that such an estimate cannot be made.

If the company is unwilling to disclose the event in the notes to its financial statements, then Atiku Audit firm are in disagreement with management and must issue a qualified opinion in its auditor's report. Disclosure may be required in the directors' report as well as in a note to the financial statements.

(Determine that it is a non-adjusting event 1 mark, disclosure 1 mark, disclosure content 1 mark, kind of report to issue 1 mark = 4 marks)

b) From: xxx
To: Automaga Ltd
Date: 1st March, 2024

Subject: **INTERNAL CONTROLS RELATING TO PAYMENTS**

The main objectives of control over payments are to ensure that payments are made only in respect of valid transactions and that they are suitably authorised.

i) **Cheque payments**

- Cheques should be raised only based on authorisation
- Those who approve invoices should not be the same people to sign Cheques
- There should be more than one independent signatory for each cheque
- Cheques should be restrictively crossed.
- Unused cheques should be kept in a secure place.
- Blank cheques should never be signed.
- Cheques should be under sequential control and all numbers should be accounted for.
- Spoilt cheques should be retained.

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

ii) **Petty cash**

- Petty cash payments should be made only based on suitably authorised vouchers, which should be under sequential control.
- An imprest system should be used to control petty cash. This means that the petty cash float is maintained at a specific amount and is reimbursed at regular intervals on the basis of vouchers showing the payments which have been made.
- The petty cash float should be subject to periodic surprise counts by a responsible person not involved with the petty cash system. The balance in hand should be reconciled to the imprest account by reference to the vouchers not yet reimbursed.
- The size of individual payments out of petty cash should be subject to a maximum to be agreed by management.
- Staff should not be allowed to cash personal cheques or borrow from petty cash.

(5 points @ 1 mark each = 5 marks)

(Total: 20 marks)

CONCLUSION

Tuition providers are encouraged to keep up the good work. They should continue to encourage candidates to pay attention to above-mentioned weaknesses by giving them more assignments and conducting more mock examinations to assist them in their examination preparations.

Candidates are encouraged to make good use of their study text as well as previous examinations questions to improve their performance in subsequent examinations.