MARCH 2025 PROFESSIONAL EXAMINATIONS
ADVANCED AUDIT AND ASSURANCE (PAPER 3.2)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The standard of the paper was good. The questions were practical and within the syllabus in terms of structure and weightings. The paper was free from errors. The rubrics of the paper were very clear without any ambiguities.

PERFORMANCE OF CANDIDATES:

As compared to the November 2024 diet which had a pass rate of 48.78%, the pass rate of March 2025 diet was 39.61%. This diet saw an under performance over the November 2024 session.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Candidates had shown strengths in areas that regularly feature in the examinations and straight forward questions.

Candidates, however, showed weaknesses in the following:

- Some candidates wrote across the margins.
- Some wrote wrong question numbers for answers provided. Some did not write the question numbers.
- Some candidates handwriting was so bad that it took one a lot of time to make up what had been written. Some candidates did not read over their work to correct sentences to make them easy to understand.
- There were signs of inadequate preparation on the part of some candidates.
- The ability to relate answers to relevant information in the scenarios must be improved by candidates.
- The application of relevant standards to answers were inadequate.
- A good number of candidates over elaborated on answers without considering marks allotted to the question.

QUESTION ONE

a) You are the Audit Manager in the audit firm of Gidisu & Associates. One of your audit clients is Athletics Gh. LTD, a company specialising in the manufacture and supply of sporting equipment. Athletics Gh. LTD have been an audit client for seven years and you have been audit manager for the past three years while the audit partner has remained unchanged. You are now planning the audit for the year ending 31 December 2024. Following an initial meeting with the directors of Athletics Gh. LTD, you have obtained the following information:

i) Athletics Gh. LTD is attempting to obtain a listing on the Ghana Stock Exchange. The directors have established an audit committee, as required by corporate governance regulations, although no further action has been taken in this respect. Information on the listing is not yet public knowledge.

ii) You have been asked to continue to prepare the company's financial statements as in previous years.

iii) As the company's auditors, Athletics Gh. LTD would like you and the audit partner to attend an evening reception in a hotel, where Athletics Gh. LTD will present their listing arrangements to banks and existing major shareholders.

iv) Athletics Gh. LTD has indicated that the fee for taxation services rendered in the year to 31 December 2024 will be paid as soon as the tax authorities have agreed the company's taxation liability. You have been advising Athletics Gh. LTD regarding the legality of certain items termed as 'allowable' for taxation purposes and the tax authority is disputing these items.

You have just inherited about 5% of Athletics Gh. LTD's share capital following the death of a distant relative.

Required:
Identify and explain **FIVE** factors which may threaten the independence of Gidisu & Associates' audit of Athletics Gh. LTD's financial statements for the year ending 31 December 2024. Briefly explain how each threat should be managed. **(10 marks)**

b) You recently received your practising certificate and have joined Bintu and Associates as a partner. The firm has operated for decades with three partners: Mr. Bintu, Mr. Quashigah, and Mr. Kortey. All three partners have not undergone any form of training or continuous professional development since 2005. Additionally, you noticed that the firm has several clients, including Public Interest entities.

From your assessment of the staff skillset, you noticed the following:

1) There is no Audit Manager. The last audit manager resigned two months ago, and he has not been replaced.
2) The firm works with six Audit Seniors, none of whom are Chartered Accountants.
3) The firm has four National Service Personnel working as audit trainees.

From your discussion with the Managing Partner, Mr Bintu, he insisted that there was no need to employ a new Audit Manager, and they have plans to temporarily promote two of the audit seniors to work as audit managers for a couple of months.

The firm was recently audited by the Quality Assurance Department of ICAG and scored an “E”. As a result, the partners have been invited to the ethics committee. Mr Bintu has asked you to review the firm's audit manual and make changes to ensure compliance with the standards. He has also tasked you to train the partners and the other audit staff on ways to improve the Firm’s Risk Assessment Process.

Required:

i) Explain to the partners of Bintu & Associates the scope of the International Standard on Quality Management (ISQM) 1 and highlight the need to ensure compliance with the standard. **(3 marks)**

ii) Discuss the requirements of ISQM 1 about Bintu & Associates’ risk assessment process. **(5 marks)**

iii) Recommend **TWO** changes required at Bintu & Associates to ensure compliance with ISQM 1. **(2 marks)**

(Total: 20 marks)

QUESTION TWO

Fadila Associates has been the auditors of Aduaba LTD for the past 3 years. Aduaba LTD is into the production of cashew drinks. You have been assigned to lead the audit of Aduaba LTD and have been provided with the following extracts from the draft financial statements for 2023 before the final audit planning meeting with the Chief Accountant.

Draft statement of financial position (extracts)

	Draft 2023		Actual 2022	
	GH¢'000	**GH¢'000**	**GH¢'000**	**GH¢'000**
Property, Plant and Equipment		42,860		41,620
Receivables				
Trade	4,800		3,150	
Other	380	5,180	280	3,430
Inventory				
Raw materials	2,460		1,870	
Work-in-progress	380		450	
Finished goods	2,270	5,110	2,030	4,350
Total Assets		**53,150**		**49,400**
Current liabilities				
Trade	4,116		3,470	
Other	870	4,986	650	4,120

Draft income statement (extracts)

	Draft 2023	Actual 2022
	GH¢'000	**GH¢'000**
Revenue	53,250	50,750
Cost of sales	39,360	39,220
Gross profit	13,890	11,530
Depreciation of Property, Plant and Equipment	4,450	2,810
Other expenses	3,540	3,480
Profit before tax	**5,900**	**5,240**

Your Audit Manager has reviewed these extracts and has identified three financial statement headings which he believes require further investigation. These are **property, plant & equipment**, **trade receivables and inventory.** He has also calculated the following accounting ratios:

	Draft 2023	**Actual 2022**
Trade receivables collection period	28 days	17 days
Inventory turnover	7.6 times	8.9 times
Gross profit percentage	26%	23%

Required:

a) Explain why the Audit Manager has selected these three headings for further investigation from the given financial statement extract. **(9 marks)**

b) Outline the audit evidence the Audit Manager should request for to clarify the situation regarding these financial statement headings. **(11 marks)**

(Total: 20 marks)

QUESTION THREE

You are partner for a firm called Konamoah & Associates, who are auditors for Aluco, an aluminium processing company. Aluco has several issues with its aluminium and steel by-products, including toxic emissions and a poor health and safety record for employees in the workshop. Aluco has proven to be very lucrative for your firm and you are busy planning the coming year's audit visits after agreeing to continue this engagement some weeks earlier.

The by-products arising from the production process include the following:

- Sharp metallic fragments that require disposal under an annually granted licence.
- Toxic exhaust gases that require treatment by a specific filter.
- Carcinogenic oil that require storage in underground bunkers.

Aluco is in the process of installing a new filter to process toxic exhaust gases. This represents an investment of GH¢2,000,000 and is material to the financial statements. The new filter is expected to reduce the number of toxic leaks that the company has caused by over 90%, although the suppliers of the filter, Adamah Enterprises, have only just rushed this product onto the market.

In the last five years, Aluco has been fined material amounts of between GH¢200,000 and GH¢400,000 by the Tema Metropolitan Assembly, so this new filter is expected to reduce their liability substantially.

During an initial planning meeting held at Aluco, the Finance Director Frank Afful suggested to you that the year's provision for toxic emission fines be removed as the new filter is likely to reduce these to negligible amounts. He has also mentioned that Aluco will need to start supplying information to assist with the metallic fragment disposal licence application and asked if your firm would be interested in providing assurance on the information required.

Required:

a) As the Audit Partner, justify the need for any provisions in respect of toxic emission fines. **(4 marks)**

b) What audit procedures are you required to perform to determine the most appropriate treatment of both the new filter and the provision in the financial statements of Aluco and any possible worst case impact on your audit report? **(10 marks)**

c) Identify **SIX** risks that your firm might have by agreeing to provide required assurance for Aluco's application for a disposal licence. **(6 marks)**

(Total: 20 marks

QUESTION FOUR

a) Audit Committees play a significant role in improving and providing transparency around governance risk management and internal control functions of Public Sector Organisations. The roles and responsibilities of the Audit Committee are provided for under section 88 of the Public Financial Management (PFM) Act 2016, (Act 921) and the Guidelines for Effective Functions of Audit Committees (2017) issued by the Ministry of Finance.

Required:
Discuss the mandatory roles and responsibilities of Audit Committee. **(10 marks)**

b) Performance auditing is an independent, objective auditing and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating as expected. It is mostly used for non-profit making organisation to assess the viability of such organisation, though it can also be used for profit making organisation to ensure whether the organisation is achieving certain objectives.

Required:

i) Evaluate the objectives of performance audits. **(6 marks)**
ii) Explain **TWO** features of performance audits. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

a) According to the corporate governance code for listed companies 2020 SEC/CD/001/10/2020, The Board of Directors shall adopt a related party transactions policy to identify relevant related parties to the company and any transactions with related parties that may take place and which specifies procedures to be adopted that will mitigate the risk that such transactions may be conducted in a way that constitutes a conflict of interest or which is against the interests of shareholders as a whole.

Required:
Identify **FIVE** procedures to be adopted by a Board that will mitigate the risk that related party transactions conducted are against the interest of shareholders. **(10 marks)**

b) The Institute of Chartered Accountants, Ghana Act, 2020 (Act 1058) requires a firm of Chartered Accountants to be registered as a sole proprietorship or partnership but not as a limited liability company.

Required:
Discuss **FOUR** potential issues with audit firms registering as limited liability companies.
(10 marks)

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

Threats to independence

a) **Rotation of audit partner**

Athletics Gh. LTD has had the same audit partner for the last seven years. An audit partner's independence might be impaired where that position is retained for more than seven years for a listed company. The reason for this is that the partner might become too close to the directors and staff in the firm and this may impair his judgement on the financial statements. However, Athletics Gh. is currently not listed so this requirement does not apply.

As Athletics Gh. is now being listed, Gidisu & Associatesshould rotate the audit partner this year to avoid any familiarity threat. However, given that Athletics Gh. was not a listed company up to this audit, this may imply that the partner could continue this year, but would be recommended to be rotated before the 2025 audit.

Preparation of financial statements

Apparently Gidisu & Associates have been preparing Athletic Gh.'s financial statements as well as carrying out the audit in previous years. While this may not have been an independence issue in the past, as a listed client the auditors may not provide certain other services to their audit clients (including accounts preparation). Preparing financial statements as well as auditing them would provide Gidisu & Associates with a self-review threat, that is they may not see any misstatements, or want to report misstatements in financial statements that they have previously prepared.

Gidisu & Associates shall therefore decline preparation of Athletics Gh.' financial statements.

Attendance at social event

Attending the social event with respect to the new listing may be inappropriate as Gidisu & Associates may be seen as supporting Athletics Gh. in this venture. There is an advocacy threat to independence. Support for a client might imply that the audit firm is "too close" to that client and might therefore lose their independent view regarding the audit. There is also a familiarity threat. The IESBA *Code of Ethics for Professional Accountants* states that gifts or hospitality cannot be accepted unless the value is trivial or inconsequential. It is unlikely that the value of the dinner invitation is trivial.

Gidisu & Associates shall therefore politely decline the dinner invitation, clearly stating their reasons.

Unpaid taxation fee

The unpaid fee in respect of taxation services could be construed as a loan to the audit client. Audit firms shall not make loans to or receive loans from audit clients. An outstanding loan will create a self-interest threat to independence as closure of the loan might be seen as more important than providing an appropriate audit opinion.

It is generally expected that Gidisu & Associates will obtain payment of the outstanding fees before the audit report is issued. Gidisu & Associates need to discuss the situation with Athletics Gh. again, suggesting that a payment on account could be made to show that the whole fee will be paid. Alternatively, audit work on the 2024 financial statements can be delayed until the taxation fee is paid. An additional safeguard would be having an appropriate reviewer who did not take part in the audit engagement review the audit work.

Inheritance
Under IESBA's *Code of Ethics for Professional Accountants*, audit team members may not hold direct financial interests in an audit client. A self-interest threat is created where the shareholder (the audit manager in this case) may be more interested in the value of the shares than providing a "correct "opinion on the financial statements.
The shares should be disposed of as soon as possible. However, given the inside knowledge of the listing, disposal now, or delaying disposal a few days to obtain a better price may be considered "insider dealing". It may be better that the audit manager resigns from the audit immediately to limit any real or potential independence problems. Professional advice may be needed on when to sell the shares.

(5 points well explained @ 2 marks each = 10 marks)

b)
i) **Scope of ISQM 1**

This International Standard on Quality Management (ISQM) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.
Engagement quality reviews form part of the firm's system of quality management and:

- This ISQM deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews.
- ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

Other pronouncements of the International Auditing and Assurance Standards Board (IAASB):
(a) Are premised on the basis that the firm is subject to the ISQMs or to national requirements that are at least as demanding; and
(b) Include requirements for engagement partners and other engagement team members regarding quality management at the engagement level. For example, ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner.

This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies and the system of quality management that is established in accordance with the requirements of this ISQM enables the consistent performance by the firm of all such engagements)

For Bintu and Associates, adopting ISQM 1 can address the quality control issues identified by the QAM of ICAG and ensure that the firm adheres to best practices in auditing. Ensuring compliance with ISQM 1 (International Standard on Quality Management 1) is essential for the following reasons:

- Maintaining High Audit Quality: ISQM 1 provides a framework for audit firms to develop a quality management system that ensures consistent delivery of high-quality audits. This helps maintain the credibility and reliability of the audit process. By adhering to ISQM 1, firms can identify and address quality risks proactively, leading to improved audit outcomes and reduced errors.
- Meeting Regulatory and Professional Standards: ISQM 1 ensures that audit firms comply with international auditing standards and regulatory requirements. This is crucial for maintaining the firm's reputation and avoiding penalties or sanctions. Compliance with ISQM 1 reinforces the firm's commitment to professional integrity and ethical behaviour, which are fundamental to the audit profession.
- Enhancing Firm Reputation and Client Confidence: A robust quality management system, as mandated by ISQM 1, enhances clients' trust in the firm's ability to provide reliable and objective audit services. High-quality audits contribute to the firm's positive reputation, attracting new clients and retaining existing ones.
- Risk Management: ISQM 1 requires firms to establish processes for identifying, assessing, and managing quality risks. This proactive approach helps in mitigating risks that could compromise audit quality.
- Continuous Improvement: ISQM 1 promotes continuous monitoring and evaluation of the firm's quality management system, leading to ongoing improvements in audit practices. The standard encourages firms to adapt their quality management processes in response to changes in the regulatory environment, client needs, and industry practices.
- Professional Development and Competence: ISQM 1 emphasises the importance of ongoing professional development for audit staff. This ensures auditors possess the necessary skills and knowledge to perform high-quality audits. The standard helps firms maintain and enhance the competence and capabilities of their audit teams, which is critical for delivering high-quality services.

(3 point well explained for 3 marks)

ii) Requirements of ISQM 1 about Bintu & Associates' Risk Assessment Process.

An audit firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks.
The firm shall establish the quality objectives specified by this ISQM and any additional quality objectives considered necessary by the firm to achieve the objectives of the system of quality management.
The firm shall identify and assess quality risks to provide a basis for the design and implementation of responses. In doing so, the firm shall:

- Obtain an understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, including:
  (i) With respect to the nature and circumstances of the firm, those relating to:
    - ✓ The complexity and operating characteristics of the firm;
    - ✓ The strategic and operational decisions and actions, business processes and business model of the firm;
    - ✓ The characteristics and management style of leadership;
    - ✓ The resources of the firm, including the resources provided by service providers;
    - ✓ Law, regulation, professional standards and the environment in which the firm operates; and
    - ✓ In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any.

(ii) With respect to the nature and circumstances of the engagements performed by the firm, those relating to:
   - ✓ The types of engagements performed by the firm and the reports to be issued; and
   - ✓ The types of entities for which such engagements are undertaken.

- Take into account how, and the degree to which, the conditions, events, circumstances, actions or inactions may adversely affect the achievement of the quality objectives.
  The firm shall design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks. The firm's responses shall also include the responses specified in paragraph 34. (Ref: Para. A49–A51)
  The firm shall establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements. If such information is identified, the firm shall consider the information and when appropriate:
    - ✓ (Establish additional quality objectives or modify additional quality objectives already established by the firm;
    - ✓ Identify and assess additional quality risks, modify the quality risks or reassess the quality risks; or
    - ✓ Design and implement additional responses, or modify the responses.

(5 marks)

iii) TWO changes required at Bintu & Associates to ensure compliance with ISQM 1

- Regularly training and continuous professional development.
- Recruitment of audit staff with the necessary competencies, especially staff who are members of ICAG.
- Review the audit report from QAM and design strategies to prevent future non-compliance.

(Any 2 relevant points for 2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Performance by the candidates was satisfactory, because the question is popular and practical. However, part (b) (i) and (ii) were not well answered by many candidates, most candidates were not able to espouse the requirement of the question relative to the ISQM 1.

QUESTION TWO

a)

Property, plant and equipment

Property, plant and equipment are material at 89% of net assets. Substantial amounts of property, plant and equipment would be expected in a manufacturing company. However, property, plant and equipment have increased by 3% this year yet depreciation has increased by 58%. The balance here may be overstated and needs further investigation to ensure that they have been properly accounted for.

(***Candidate's ability to explain with figures 3 marks)***
***(Without figures 1.5 marks*)**

Trade receivables
Trade receivables have increased by 52% but revenue has increased by only 5%. The collection period has also increased from 17 days to 28 days. This may be an indication that the company is not able to recover its debt. Allowances for doubtful debts may need to be increased. More extensive testing on the recoverability of debts and the accuracy of cut-off may be needed.

(Candidate's ability to explain with figures 3 marks)
(Without figures 1.5 marks)

Inventory
Total inventory has increased by 17%, raw materials by 32%, and finished goods by 12%. work-in-progress on the other hand decreased by 16%. Inventory turnover has fallen from 9.9 times to 7.6 times. The outcome of these analyses may be an indication of obsolete or slow-moving inventories, or inventories are building up because the company is not receiving enough.
Furthermore, revenue increased by 5% yet the cost of sales increased by 0.4%. this shows that there might be an over-valuation of closing inventory or an error in the cut-off. Inventory is a high-risk area, especially in a manufacturing company. Valuation will need to take into account the stage of completion and net realisable values.

(Candidate's ability to explain with figures 3 marks)
(Without figures 1.5 marks)

b) **Property, plant and equipment**

- An explanation for the increases in net book value and depreciation.
- Confirmation of the accounting policy for depreciation to ensure it is consistent with the previous year.
- A detailed analysis of movements on property, plant and equipment during the year, including details of additions and depreciation charges.
- Whether any assets are recorded at a valuation as opposed to cost.
- Work that has been capitalised.
- Evidence so support the difference between percentage increase in the new acquisition and increase in depreciation.

(1 mark for each valid point. Maximum of 4 marks)

Trade receivables

- An explanation for the increase in the trade receivables collection period.
- Details of any significant new customers during the year and information on their credit ratings.
- An analysis of bad debts written off and the allowance for doubtful debts.
- An aged receivables analysis.
- Details of post-year-end cash receipts.

(1 mark for each valid point. Maximum of 4 marks)

Inventory

- Explanations for the movements in raw materials, work in progress and finished goods and for the overall increase in inventory.
- Details of any adjustment required to physical inventory records as a result of the year-end count.
- Details of post-year-end sales and next year's order book.
- An analysis of the allowance for obsolete inventory.

(1 mark for each valid point. Maximum of 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2(a) was well answered by most candidates because the question is practical. Many candidates, however, understood the question to be audit procedures for reviewing financial statements. Question 2(b) quite a straightforward question was well answered by most candidates. Performance for question 2 was good because it is popular with many candidates.

QUESTION THREE

a)

Under the terms of IAS 37, there are three conditions for a provision to be recognised:

- A present obligation due to a past event
- Probable likelihood of financial outflow
- A reliable estimate of the outflow

Given that previous leaks have been fined, it seems likely that a financial estimate can be made in the event of any future leaks and that Aluco will be liable. Consequently, the only uncertainty over the provision is the probability of any future leaks actually occurring, and that leads back to the concerns about the new filter discussed.

As it stands, removing the provision altogether appears less than prudent and would not be advised.

(4 marks)

b) **Work required to determine the appropriate accounting treatment**

There are a number of procedures that Konamoah & Associates can perform to ensure that the filter is treated satisfactorily in the financial statements.

The following are a number of suggestions:

- Agreeing the value of the new filter to purchase invoices from Adamah Enterprises, taking into account capitalization of any installation costs
- Agree the lifetime and associated depreciation policy in line with Adamah's expectations and any warranty (if supplied)
- Agree Board minutes approving the capital expenditure
- Discuss treatment of provisions with Frank Afful in line with any points raised in part (a) above
- Recalculate any provisions made to ensure realistic estimate (if provided)
- Undertake any new year review of actual leaks in old year to establish accurate treatment.

In the event of worst case scenario emerging, where the new filter is inappropriately recorded in the financial statements and the provision is not made when it should be. These would require correction for the financial statements to be true and fair. There do not appear to be any going concern issues as the company seems to have survived after paying fines in previous years, so the likely audit report that would be produced if the directors refuse to correct the financial statements would need to be modified by providing a paragraph with a qualified opinion due to material misstatement (on the grounds of disagreement with the accounting treatment used) stating that ….except for the inappropriate treatment of the new filter and the provision for toxic leak fines, that financial statements show a true and fair view.

The auditor's report would include a paragraph before the opinion paragraph describing the basis for this qualified opinion and any indications of the likely provision that should be charged as well as the appropriate value for the filter.

(10 marks)

c) ***Concerns in providing assurance***

There are a number of constraints that make it difficult for Konamoah & Associates to act in this particular capacity:

- Adding income from this engagement to the existing audit fee (which we know to be 'lucrative' already) might breach the limits that any one client can make up of the firm's ongoing revenue (i.e. 15% of firm income)
- The firm may not be technically competent to act on such an engagement
- There may not be enough staff to complete this engagement satisfactorily
- There may be a perceived lack of independence in our assurance opinion if we also complete that audit unless we can demonstrate the ability to treat them as separate engagements
- We may find it difficult to measure the data required for the licence if Aluco does not have the systems for measurement of its own
- The assurance work could result in increased liability if there was found to be an error in the measured data or the engagement require a higher profile audience and our reputation could be sullied by and further involvement with this client
- Would the financial resources committed to this engagement be better deployed elsewhere?

(Any 6 relevant points for 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Most candidates correctly suggested that the provision should be made, but majority could not link their solution to IAS 37. Most candidates could not demonstrate their understanding of the IFRS and the auditing standards.

QUESTION FOUR

a)

Mandatory roles and responsibilities of Audti Committees

Section 88. (1) states, An Audit Committee shall ensure that the head of a covered entity, to which the Audit Committee relates,

(a) pursues the implementation of any recommendation contained in

(i) an internal audit report;

(ii) Parliament's decision on the Auditor-General's report;

(iii) Auditor-General's Management Letter; and

(iv) the report of an internal monitoring unit in the covered entity concerned particularly, in relation to financial matters raised;

The above impresses on the Audit Committee to ensure that issues raised by the four entities are settled by the parties who caused them. The head of the cover entity is also prevailed upon to ensure that parties that caused audit infractions settle them or are brought to book and

(b) prepares an annual statement showing the status of implementation of any recommendation contained in

(i) an internal audit report;

(ii) Parliament's decision on the Auditor-General's report;

(iii) Auditor-General's Management letter;

(iv) the report on financial matters raised in an internal monitoring unit of a covered entity; and

(v) any other related directive of Parliament.

Under this the Audit Committee at the time of submitting their annual report would have to show the extent of implementation of the findings; those implemented and those not yet implemented. Before doing so, all efforts would be expended to ensure implementation of the recommendations. Thus correcting infractions observed by auditors.

(2) An annual statement required under subsection (1) (b) shall

(a) indicate the remedial action taken or proposed to be taken to avoid or minimise the recurrence of an undesirable feature in the accounts and operations of a covered entity;

(b) indicate the period for the completion of the remedial action; and

(c) be endorsed by the relevant sector Minister and forwarded to the Minister for Finance, Parliament, Office of the President and the Auditor-General within six months after the end of each financial year.

Because remedial actions and the dates thereof are noted and a sector a minister has to counter sign to authenticate the report, definite action would be taken to ensure compliance.

Audit Committees are charged to ensure that adverse findings are corrected, it is a good measure to enable the country to safe guard it resources.

(10 marks)

b)

i) Performance auditing, is an independent, objective auditing and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with principles of economy, efficiency and effectiveness, and whether there is room for improvement.

The objective is to ensure economical, effective and efficient governance. It promotes accountability by assisting those with governance and oversight responsibilities to improve performance. It also contributes to accountability and transparency.
Performance auditing is mostly used for nonprofit making organisation to assess the viability of such organization, though it can also be used for profit making organisation to ensure whether the organization is achieving certain objectives

1. Doing things the right way
This denotes doing things economically and efficiently. The two look at the circumstances, the way of doing right things.
Economy means minimising the costs of resources. Making available of resource in good time at appropriate quantity and quality and at the best price. Questions that could be asked when purchasing an input is whether they are being bought at the lowest price. Whether resources are being economically used and whether management and administrative practices are based on good policies. Attaining appropriate quantity and quality of inputs at the lowest cost is the focus.
Efficiency is concerned with the relationship between inputs and outputs with the objective of maximizing output for a given input. The main question is whether the resources have been put to optimal or satisfactory use, or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources.
Sometimes inefficiency is obvious when it occurs. However, efficiency is often a matter of judgement, based on assessment of both quantity and quality of output. A benchmark of efficiency can be found by making comparisons with similar activities or organisations, with performance in previous time periods, with an established standards or norms

2. Doing the right things?
Effectiveness looks at whether what the organisation set out to do; output, service or programme has been achieved. It is the relationship between output and objective of an organisation. It is a goal-attainment concept.
The question of effectiveness consists of two parts:

- Has the policy objectives have been achieved?
- Can it be attributed to the policy pursued?

(6 marks)

ii) Features of Performance Audit

- whereas financial auditing tends to apply relatively fixed standards, performance auditing is more flexible in its choice of subjects, audit objects, methods and opinions
- performance auditing is not a regular audit with formalized audit opinions, it is an independent examination made on a non-recurring basis.
- It is by nature wide-ranging and open to judgements and interpretations

- It must have at its disposal a wide selection of investigation and evaluative methods and operate from a quite different knowledge base to traditional auditing. It is not a checklist-based form of auditing.

(Any 2 point well explained @ 2 marks each = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Many candidates did not do well with respect to this Question 4(a), because they confused the mandatory roles of Audit Committees with advisory roles, therefore many candidates deviated this question, hence, a very poor performance. Most candidates did not exhibit agood knowledge of section (b) of the question. This showed most candidates' poor understanding of public sector auditing.

QUESTION FIVE

a)

Any transaction that is identified by any one director as a related party transaction shall be subject to the related party transaction procedures;

1) any related party transaction shall be referred to the Audit Committee for review
2) the audit committee may determine that a related party transaction is sufficiently material to be referred to shareholders for approval
3) any related party transaction not designated as material under sub paragraph (c) above shall be subject to approval by the Board and any vote by the Board shall exclude those with a conflict of interest or any interest in the related party or the transaction;
4) where the Board (excluding those not entitled to vote under sub paragraph (d) above) does not unanimously approve the related party transaction, it shall be referred to the shareholders for approval; and
5) any related party transactions that are approved by the shareholders shall be identified in the annual report.

(5 points at 2 marks each = 10 marks)

b) Issues with audit firms registering as limited liability companies

- **Professional Responsibility and Accountability**: In Ghana, auditors are required to have personal accountability for their work. The potential for personal liability ensures auditors take their responsibilities seriously and maintain high standards of integrity and professionalism. As a result, registering the firm as a limited liability company will shield the auditors from personal liability.

- **Public Trust**: Auditors play a crucial role in maintaining public trust in financial reporting. The possibility of personal liability enhances public confidence that auditors will perform their duties diligently and impartially.

- **Independence and Objectivity**: The structure of a limited liability company might create potential conflicts of interest that could compromise the independence and objectivity of auditors. The ICAG Act 2020 seeks to minimise these risks by requiring audit firms to be structured as partnerships or sole proprietorships.

- **Partner Monitoring**: In a limited liability company, partners who are not directly involved in a negligent audit are protected. Therefore, partners in a limited liability company have less incentive to monitor each other's work and less incentive to invest in quality control systems.

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
Question 5(a), was poorly answered by most candidates because they could not show their understanding of related party transactions and how it will affect the shareholder. Question 5(b) was however, well handled by many candidates.

CONCLUSION
Performance of candidates in this paper was below average, even though some candidates scored 50% and above in this paper.

The under listed points can be used to strengthen the examination:

- Tuition providers should guide candidates to appreciate the provisions in IAS and IFRS.
- A lot of mock tasks should be conducted prior to the examinations so that candidates will be exposed to the approach of ICAG's professional examination questions for improved performance.
- Candidates must be encouraged to make good use of their study text as well as previous examinations questions so that performance in subsequent examinations will continue to improve.
- Candidates must be encouraged by Tuition Providers to improve on their English language writing skills so that they can express their thoughts well on paper in future examinations.