

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

EXAMINER'S GENERAL COMMENTS

The paper covered all sections of the syllabus. The standard of the paper was comparable to previous diets. Some candidates appeared not to have understanding of the Audit and Assurance topics resulting in poor performance in the Advanced Audit and Assurance paper.

PERFORMANCE OF CANDIDATES

Candidates' general performance was relatively low compared to previous diets. In few instances candidates strayed into columns reserved for examiners and moderators in the answer booklet. There were few instances where candidates recorded wrong question numbers for answers provided. Some candidates showed signs of inadequate preparations from the answers they produced

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

The application of standards to answer questions where necessary, has been a problem for some candidates. The application of their knowledge in other topics to answer questions following scenarios has also been a challenge to some candidates. Most candidates did not read over their work to correct sentences, this made reading and understanding of what exactly the candidates intended difficult. Candidates showed strength in questions that are straight forward and therefore required straight forward answers.

QUESTION ONE

- a) Your firm, Afaglo Audit Consult, is considering taking on a new client, Asokwa Finance, a financial services company. Before accepting the engagement, the team lead conducted a preliminary assessment and discovered that Asokwa Finance has in the past had issues with regulatory compliance and financial irregularities. The Directors of Asokwa Finance have offered a substantial audit fee that will significantly boost your firm's revenue.

The assessment revealed that the company is undergoing a major restructuring, which includes transactions involving the domestic debt exchange, complex financial transactions on the Ghana Stock Exchange and derivatives trading. There are also concerns about the adequacy of their internal controls, especially in their high-risk trading operations. Furthermore, the company's senior management has a history of high attrition rate, with several key positions currently filled by interim executives.

You also received an anonymous privileged information that suggests Asokwa Finance has been involved in misreporting to the Bank of Ghana to meet the minimum capital requirements and performance targets. The whistleblower claims to have evidence of these practices but is unwilling to come forward publicly.

Required:

- i) Explain **FOUR** factors you should consider before accepting this audit engagement. **(4 marks)**
- ii) Describe **THREE** procedures you would follow to assess the integrity and reputation of Asokwa Finance. **(3 marks)**
- iii) Discuss the implications of the ongoing restructuring and complex financial transactions on your audit approach. **(3 marks)**
- b) Afripay Solutions LTD is a rapidly growing technology company planning to be listed on the Ghana Stock Exchange within the next fiscal year. The current auditor of the company is a firm rated “C” by the Institute of Chartered Accountants, Ghana (ICAG). However, due to its growth and upcoming Initial Public Offering (IPO), the Board of Directors decided to appoint a more experienced audit firm with a higher rating by the ICAG. They approached KKBK Auditors, who are known for their expertise in handling audits for technology companies and publicly traded firms.

However, the appointment process faced several challenges. The outgoing auditors disagreed with their removal and raised concerns over the change. Additionally, a whistleblower alleged potential conflicts of interest involving some Board Members and the proposed new auditors.

Required:

- i) Discuss the procedural steps that Afripay Solutions LTD must follow to formally appoint KKBK Auditors, considering the objections raised by the outgoing auditors and regulatory requirements. **(5 marks)**
- ii) Discuss the legal requirements for the removal of auditors in Ghana in accordance with the Companies Act 2019, (Act 992). **(5 marks)**

(Total: 20 marks)

QUESTION TWO

You are the manager responsible for the audit of Gyampoh LTD (Gyampoh). The company's principal activity is wholesaling frozen fish.

The draft consolidated financial statements for the year ended 31 March is as follows:

	2025	2024
	GH¢'million	GH¢'million
Revenue	100.5	93.45
Profit Before Tax	17.85	21.3
Total Assets	72.00	54.6

Issues arising during the audit have been noted below for your attention:

Chemical Leakage

Early in 2025, some of Gyampoh's property became contaminated due to a chemical leak from refrigeration units. Gyampoh has paid a fine of GH¢45,000 to a regulatory body, GH¢0.45 million for cleanup expenses and GH¢0.9 million for unit modernisation to stop future leaks. These expenses have been capitalised as improvements, with the exception of the fine, which has been expensed. (7 marks)

Inventory

Gyampoh contracted with Nuumo Warehousing (Nuumo) to handle all of its cold storage needs while the refrigeration systems were being modernised. As of March 31, 2025, health and safety regulations prohibiting unauthorised access to cold storage spaces made it impossible to physically inspect Gyampoh's inventory with Nuumo. Management of Gyampoh has stated in writing that the inventory as of March 31, 2025, was GH¢15.15 million (2024 – GH¢10.05 million). This amount has been agreed to a costing of Nuumo's monthly return of quantities held at 31 March 2025. (7 marks)

Residential Apartment

Gyampoh owns a residential apartment above its head office. Until 31 December 2024 it was let for GH¢4,500 a month. Since 1 January 2025 it has been occupied rent-free by the senior sales executive. (6 marks)

Required:

For *each* of the above issues:

- Comment on **THREE** matters that you should consider; and
- State **FOUR** audit evidence that should be appropriate for the audit.

(Note: The mark allocation is shown against each of the three issues).

(Total: 20 marks)

QUESTION THREE

As the Audit Manager of Zealow & Associates, you are responsible for conducting reviews on audit files where there is potential disagreement between your firm and clients.

You are looking at Duakwanta LTD's audit file's going concern section. Duakwanta LTD is a client with severe cash flow issues as well as other, less significant operational signs of going concern issues.

According to the working papers, Duakwanta LTD is now attempting to raise funds to support its operating cash flows, and if the funds are not obtained, there will be serious uncertainty over the company's ability to continue as a going concern. After reviewing the working papers, it came to light that the going concern assumption is appropriate. However, it is advised that the financial statements include a note outlining the company's cash flow issues, a description of the financing being sought and an assessment of the company's going concern status. The Directors of Duakwanta LTD do not wish to include the note in the financial statements.

Required:

- a) Compare and contrast the responsibilities of Management and of Auditors, in relation to the assessment of going concern. You should include a description of the procedures used in this assessment where relevant. **(7 marks)**
- b) Consider and comment on **FOUR** possible reasons the Directors of Duakwanta LTD are reluctant to provide the note to the financial statements. **(5 marks)**
- c) Identify and discuss the implications for the auditor's report if:
 - i) The directors refuse to include the disclosure note. **(4 marks)**
 - ii) The directors agree to include the disclosure note. **(4 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) Ghana Education Service (GES), as part of its mandate, monitors the performance of schools through supervision, collection of data and evaluation of key indicators like learning outcomes, extracurricular activities and absenteeism. The performance of all schools is subject to annual audits, conducted by auditors, which examine schools in terms of a range of metrics determined by GES.

Odano Primary School is located in Tetegu, a suburb of Oblogo, which is the capital of Weija Gbawe Municipal. It is a former industrial zone, which now suffers from high levels of unemployment and crime. Many of its residents are among the poorest 20% of Weija Gbawe's population, whose children qualify to receive free school meals from the government.

Attendance levels at Odano Primary School are poor, and the school has received reports from concerned citizens of school children wearing unkempt uniforms and being in the city centre at times when they should have been at school.

Odano Primary School is required to report on key performance indicators (KPIs) in areas spanning the breadth of its activities. On the basis of these indicators, GES has recently assessed Odano Primary School's performance to be poor.

Odano Primary School's KPIs included the following:

Area measured	KPI
Academic performance	% of pupils in Primary 6 achieving grade "A" in June exams
School attendance	Average % of pupils absent from registration at 8:30 am
Participation in sport	Number of trophies won by school's sports teams
Uniform	% of pupils whose school uniforms are in line with regulations

Required:

Using the information available:

- Critically assess each KPI on Odano Primary School, suggesting possible ways of improving upon any inadequacies you may find. **(6 marks)**
- Recommend alternative KPIs to measure performance in each area. **(2 marks)**
- State audit procedures to provide assurance on the accuracy of each alternative KPIs which you have recommended. **(2 marks)**

- b) Publication of Auditor General's reports in the media after lodgement with parliament before consideration by the Public Accounts Committee has always generated controversy. Some critics are of the view that the Public Accounts Committee should finish its probes before publication of the report by the Auditor General, as that will allow for mistakes in the report to be corrected.

Required:

Critically examine the above statement.

(6 marks)

- c) Supreme Audit Institutions (SAIs) are supposed to play a vital role in oversight by promoting transparency, verifying government accounts accuracy and reliability, evaluating spending compliance, assessing such spending's efficiency and effectiveness, and supporting the fight against corruption.

Required:

According to *INTOSAI-P 20: Principles of Transparency and Accountability*, discuss **FOUR** principles of transparency and accountability expected of SAIs.

(4 marks)

(Total: 20 marks)

QUESTION FIVE

- a) According to the corporate governance code for listed companies 2020 SEC/CD/001/10/2020, where a Board member has an interest in any matter that is the subject of Board discussion, he or she shall declare the nature and extent of that conflict of interest to the Board, and the Board Secretary shall keep a register of such interests. The Board should establish comprehensive conflict of interest policies to ensure transparency, prevent impropriety and maintain the integrity of the organisation's decision-making process

Required:

Identify **FIVE** policy guidelines the Board should develop with respect to conflict of interest. **(10 marks)**

- b) Established under section 353 of the Companies Act, 2019, the office of the Registrar of Companies (ORC) announced an exemption for small businesses with a threshold of GH¢400,000 and below from the financial statement audit mandate outlined in section 137 of the Companies Act, 2019 (Act 992). The waiver also includes relief from the obligation to publish an auditor's report – a requirement stipulated under the same section of the Act.

Required:

Explain **FOUR** arguments each in *favour* of and *against* the audit of all companies.

(10 marks)

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a)

i) **FOUR factors to consider before accepting this audit engagement**

- **Integrity and reputation of the client:** The International Auditing and Assurance Standards Board (IAASB) emphasises the importance of understanding the entity and its environment, including management's integrity. Assessing the integrity of management is essential to ensure the accuracy and reliability of the financial statements. It helps auditors identify potential risks, plan and execute the audit effectively, and ultimately provide a fair and accurate opinion on the financial statements. In this case, an assessment of the integrity of management could provide further information on the internal controls in Sika Finance and explain why there is high senior management turnover. The high turnover of senior management indicates issues that could affect the overall integrity of the audit. It is essential to assess these issues and consider whether the firm can put in place safeguards to reduce the risks
- **History of regulatory compliance issues:** It will be essential to consider Sika Finance's history of regulatory compliance. A history of regulatory compliance issues suggests that the client may operate in a high-risk environment, increasing the likelihood of financial misstatements, fraud, or other irregularities. The financial services sector is a high-risk environment with recent regulatory non-compliance issues for several players. Identifying these issues early on allows the auditor to plan for enhanced review and additional audit procedures in areas where compliance issues have historically occurred. Assessing the history of Compliance also provides further understanding of the client's operating and regulatory environment. This understanding is essential for the auditor to assess risks accurately and tailor the audit approach accordingly.
- **Potential conflicts of interest and ethical concerns:** When considering accepting an appointment as an auditor, assessing potential conflicts of interest and ethical concerns is crucial to maintaining the auditor's independence and objectivity. Ethical concerns can influence the auditor's judgment and decisions, potentially leading to a lack of objectivity and impartiality. Assessing and addressing conflicts of interest and ethical concerns to ensure compliance is a requirement of professional standards. Auditors also have a duty to uphold ethical principles, including integrity, objectivity, professional competence, confidentiality, and professional behaviour. Identifying and mitigating conflicts of interest is part of these responsibilities.
- **Resources available to conduct the audit**
- Risk factors to be considered, for instance restructuring period and potential financial irregularities and internal control weakness.
- **Competency of audit firm in conducting the engagement**

(4 relevant points @ 1 mark each = 4 marks)

ii) **Procedures to follow to assess the integrity and reputation of Asokwa Finance.**

- **Conduct background checks on interim senior management and key personnel:** With high senior management turnover and the appointment of interim senior management, there is a risk that the interim senior management might have the requisite competence and integrity for the job.
- **Review past audit reports and regulatory filings:** Regular reports to the Bank of Ghana and past auditor letters of weakness may identify issues that pertain to the integrity and reputation of the company.
- **Interview previous auditors:** Previous auditors can share detailed information about past audit findings, including any issues or irregularities they encountered. This can help identify recurring problems or improvements over time. Information on significant adjustments made during past audits can also indicate potential areas of concern by the company's management. Previous auditors can also share specific challenges they faced during their audits, such as difficulties in accessing records or any limitations imposed by management.
- **Analyze media and industry reports on the company:** Media coverage reflects how the public perceives the company, investors, and other stakeholders. A strong, positive reputation suggests high integrity, while negative media attention can signal underlying issues. Negative media reports may confirm the bad reputation of the company. Consistent reports of misconduct or controversies can indicate a pattern of unethical behaviour or poor management practices. How the company handles crises and its public relations strategies can also indicate its commitment to transparency and ethical practices.

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

iii) **The implications of the ongoing restructuring and complex financial transactions on the audit approach**

- Increased complexity and risk require specialised knowledge and expertise: The complex stock exchange and derivatives trading transactions may require specialised skills. In the development of the team for the audit, it will be necessary to assess the skills and competencies of team members to ensure that they can adequately audit these transactions and reduce the audit risk.
- Detailed testing and review of high-risk areas, such as derivatives and financial instruments. Due to the complexity and the potential effects of domestic debt restructuring transactions, transactions on the stock market and derivative trading, it is essential to conduct detailed testing of those transactions to ensure that they are properly treated in the financial statements.
- Detailed review of the company's valuation and accounting policies. Considering the potential bad integrity of senior management, it is necessary to review changes in the accounting policies to ensure that those policies are applied in accordance with accounting standards.
- Review of disclosures requirements in accordance with related standards relating to the restructuring and complex financial transactions.

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

b)

i) **Procedural steps that Afripay Solutions LTD must follow to formally appoint KKBK.**

- **Board Resolution:** The Board of Directors should pass a formal resolution recommending the appointment of PMGC Auditors.
- **Audit Committee Approval:** Obtain approval from the Audit Committee, ensuring they are satisfied with the due diligence conducted and that the appointment meets regulatory standards.
- **Shareholder Approval:** Present the appointment proposal to the shareholders for approval at the annual general meeting (AGM) or a specially convened general meeting.
- **Address Outgoing Auditor Concerns:** Allow the outgoing auditors to present their concerns at the meeting and ensure their representations are considered.
- **Regulatory Notification:** Notify the Securities and Exchange Commission and other relevant regulatory bodies of the change in auditors and provide any required documentation.
- **Public Disclosure:** Disclose the change in auditors through appropriate public channels, such as stock exchange announcements, to inform investors and stakeholders.

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

ii) **Legal requirements for the removal of auditors**

According to Section 141 of the Companies Act 2019, Act 992

A resolution to remove an auditor or to appoint any other person in the place of that auditor is not effective unless,

- a) a written notice has been given to the company of the intention to pass the resolution, not less than thirty-five days before the general meeting at which the resolution is to be moved and on receipt of the resolution, the company has forthwith sent a copy of the resolution to the auditor concerned;
- b) the resolution is passed at a general meeting of the company; and
- c) the company has given the members notice of the resolution at the same time and in the same manner as the company gives notice of meetings or, if that is not practicable, has given the members notice of the resolution in the same manner as notices of meetings are required to be given not less than twenty-one days before the meeting.

Provided that,

- a) If, after notice of the intention to move the resolution is given to the company, an annual general meeting is called for a date thirty-five days or less after the notice has been given to the company, the notice is properly given; and
- b) in the case of a resolution to remove an auditor appointed by the directors or to appoint any other person in place of an auditor so appointed, substitution of fourteen days for thirty-five days and seven days for twenty-one days.

The auditor concerned is entitled:

- a) to be heard on the resolution at the meeting; and
- b) to send to the company a written statement, and the company shall send copies of the statement with every notice of the annual general meeting or, if the statement is received too late, shall forthwith circulate to each person entitled to the notice of the meeting in the same manner as notices of meetings are required to be given.

The company need not send or circulate such statement

- a) if the statement is received by the company less than seven days before the meeting; or
- b) if the Court, on an application made by the company or any other person who claims to be aggrieved, so orders on being satisfied that the statement is unreasonably long or that the rights conferred by this section are being abused to secure needless publicity for defamatory matter; the Court may order the costs of the applicant to be paid in whole or in part by the auditor although the auditor is not a party to the application.

Without limiting the right of the auditor to be heard orally on the resolution, the auditor may, unless the Court makes an order, also require that the written statement by the auditor be read to the meeting.

If the resolution is passed, the resolution shall not take effect until the conclusion of the annual general meeting.

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

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 1(a) was fairly well answered. Some candidates however misunderstood the requirement of (aii) as they concentrated on the fundamental principles rather than procedures to follow to assess integrity and reputation of the client.

Requirement (bi) was not well answered. The requirement on the procedural steps to follow to formally appoint auditors was misunderstood by candidates. Some candidates wrote on threats to independence rather than procedural steps that must be followed to formally appoint auditors. Others responded by using the procedure under the Company Act, 2019 (Act 992) in removing auditors. These two reasons accounted for poor performance.

Requirement (bii) was poorly answered. Most candidates wrote on the reasons that can cause the removal of auditors instead of the legal requirement for removing auditors in accordance with the Companies Act, 2019 (Act 992)

QUESTION TWO

Chemical leakage

i) Matters to consider

- The clean-up costs of GH¢0.45m should not have been capitalised as an asset but should have been written-off to the statement of profit or loss. This amount represents 0.6% of total assets and 2.5% of profit before tax so is not material but should be adjusted for in the financial statements.
- The modernisation costs of GH¢0.9m represent 1.2% of total assets and 5% of profit before tax and are therefore material to the accounts. Their capitalisation would be correct in accordance with IAS 16 Property, Plant and Equipment if the expenditure restores the economic benefits of the refrigeration units.
- The fine of GH¢45,000 incurred by Gyampoh is immaterial but has been correctly written-off to the statement of profit or loss.

(3 points for 3 marks)

ii) Audit evidence

- Invoices to support the clean-up costs and modernisation costs
- Correspondence from the regulatory agency to confirm the amount of the fine
- Bank statement and cash book extracts to show payment of the amounts involved
- Board minutes referring to the chemical leakage
- Physical inspection of the refrigeration units to confirm the modernisation costs incurred

(4 points for 4 marks)

Inventory held by Nuumo Warehousing

i) Matters to consider

- Inventory is material to the statement of financial position, comprising 21% of total assets, therefore the auditors need to obtain sufficient, appropriate audit evidence of its valuation at the year end.
- Inventory has increased from the year before by 51% which is very high - the reason for this increase needs to be investigated further.
- A written representation from management with a point on the value of inventory held at the year-end is not sufficient audit evidence as there should be other more reliable audit evidence available to confirm the GH¢15.15m figure.
- If the inventory figure cannot be adequately verified, this may result in a limitation on the scope of the audit, and a modification of the auditor's opinion on the grounds of an inability to obtain sufficient appropriate audit evidence.
- Although the quantity of inventory held by Nuumo Warehousing can be provided, this does not provide evidence of its valuation at the year-end date. Given that inventory comprises fish, it may be that some of the inventory might be damaged and therefore its value would be less. Inventory may therefore be overstated in the financial statements.

(3 points for 3 marks)

ii) Audit evidence

- Written representation from management referring to the value of year-end inventory
- Correspondence between Gyampoh and Nuumo Warehousing regarding the inventory held by Nuumo Warehousing on behalf of Gyampoh
- Nuumo's monthly returns of quantities held

- correspondence relating to the health and safety issues preventing access to cold storage area
- Analytical procedures on inventory, such as month by month comparisons to the previous year, to try to ascertain why the value of inventory has increased so much this year

(4 points for 4 marks)

Residential apartment

i) Matters to consider

- The senior sales executive is a related party in accordance with IAS 24 Related party disclosures as he would be a member of key management.
- A related party transaction has therefore occurred by virtue of the senior sales executive using the residential apartment of the company even though no money has exchanged hands - IAS 24 defines a related party transaction as 'a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
- IAS 24 requires related party transactions to be disclosed in the financial statements as they are material by their nature. The standard details what is required for disclosure, but it includes the names of the related parties, the relationships, the amounts involved and a description of the transactions.

(3 points for 3 marks)

ii) Audit evidence

- Rental agreement to confirm charge of GH¢4,500 per month and identification of the other party
- Deeds to confirm ownership of the apartment by Gyampoh
- Physical inspection of the apartment to confirm its existence and that it is being occupied
A written representation from the directors of Gyampoh to confirm all related parties and related party transactions have been disclosed and appropriately accounted for in line apartment with the applicable framework
- A written representation from the senior sales executive stating that he is occupying the rent-free

(3 points for 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The first part of the question required candidates to identify three matters to consider, and four audit evidence in each of the three issues identified. Candidates were not able to identify the issues and the accounting treatment.

In the second part, most of the candidates were able to state the four appropriate audit evidence in each of the matter.

On the whole the performance was on the average.

QUESTION THREE

a) **Responsibilities of management and auditors in relation to going concern.**

ISA 570 Going Concern discusses the responsibilities of management and auditors in relation to the going concern assumption. It explains management's responsibilities with regards to going concern as detailed in IAS 1 Presentation of Financial Statements. This standard requires management to make an assessment of an entity's ability to continue as a going concern. If management becomes aware of material uncertainties casting significant doubt on the entity's ability to continue as a going concern, these must be disclosed. Management should also disclose if the financial statements are not prepared on a going concern basis and if so, the basis on which they are prepared and the reason the entity is not regarded as a going concern.

The auditor is responsible for obtaining sufficient, appropriate evidence about the appropriateness of managements use of the going concern assumption in the financial statements. Based on the evidence collected, the auditor must conclude whether there is a material uncertainty about the entity's ability to continue as a going concern and then determine the implications for the auditor's report.

Therefore, the main responsibility of management is to assess the entity's ability to continue as a going concern, use the correct basis of presentation and make the correct disclosures in the financial statements. The auditor is responsible for providing an opinion on whether management have fulfilled these obligations and collecting enough evidence to support this.

Indicators

Both management and auditors use a range of indicators in making an assessment of going concern. They will both look at financial indicators, such as adverse key financial ratios, and also operating indicators, for example the emergence of a highly successful competitor. Management use indicators as part of their day to day management of the business, while auditors do so in order to understand the business and carry out analytical procedures.

Procedures

Auditors are required to carry out additional procedures if events or conditions are identified that cast significant doubt on the entity's ability to continue as a going concern. Specifically, these procedures include:

- Requesting management to make an assessment of going concern if it has not already done so.
- Evaluating managements future plans in relation to the going concern assessment
- If management have prepared a cash flow forecast and this is significant, evaluating the reliability of the underlying data and underlying assumptions.
- Considering facts or information which have become available since management's assessment.
- Requesting written representations from management regarding their plans for future action and the feasibility of these plans.

Management are not required to carry out any additional procedures if there is doubt the entity will continue as a going concern. However, they should look into and respond to any difficulties as part of good governance.

Timing

As per ISA 570, the auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Similarly, management should consider going concern in their ongoing management of the business. The auditor covers the same period as management in the evaluation of management's assessment of going concern.

(7 marks)

b) Why directors are reluctant to provide a note to the financial statements.

Directors accountable

The directors at Duankwanta LTD may not want to highlight the difficulties the company is experiencing as they will be held directly responsible by shareholders and other stakeholders. Even if the problems are a result of an external force, such as a new competitor, the directors could still be held accountable and will want to protect their own interests.

Trigger further financial distress

Duankwanta LTD is currently trying to raise finance to cover its operating cash flows. The likelihood of being able to raise this finance is reduced by including the note in the financial statements as potential lenders will be concerned about non-repayment. Additionally, it could cause existing lenders to recall their funds early as they too are worried about the company's ability to pay in the future. The directors may therefore be concerned that the note may only exacerbate any financial difficulties Duankwanta LTD is suffering.

Operational problems — customers and suppliers

The directors could be concerned that including the note in the financial statements would lead to operating problems, worsening the current situation. Suppliers may choose to withdraw business if they are concerned about Duankwanta LTD's ability to pay. Customers may be worried that the company will close leaving them without supplies at short notice and so choose to go elsewhere.

Operational problems — loss of staff

Employees at Duankwanta LTD may decide to find alternative employment rather than risk redundancy. The directors may fear that the inclusion of the note will cause valued employees to leave and have a negative impact on the business.

Directors do not think going concern is impacted

The directors could genuinely feel the going concern status of the company is not impacted by the problems it faces. The directors may believe that they are likely to secure the finance they require to cover their cash flow difficulties and so the future of the company is secure.

(4 relevant points @ 1.25 marks each = 5 marks)

c) **Implications for the auditor's report if:**

i) *The directors refuse to disclose the note*

According to IAS 1, management must disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Working papers from the audit of Duankwanta LTD indicate there is significant doubt over the going concern status of the company. If the directors refuse to include the note, then IAS 1 has not been adhered to.

The auditor will need to modify the auditor's report to express either a qualified or an adverse opinion, depending on how significant they believe the omission of the note to be. If they believe that the non-inclusion of the note is so material and pervasive that a qualification would not be adequate to disclose the misleading nature of the financial statements, then they should express an adverse opinion. If the auditors believe that the lack of note is not so material or pervasive that an adverse opinion is required, then a qualified 'except for' opinion will be adequate.

A statement that there is a material uncertainty which casts significant doubt on the entity's ability to continue as a going concern will also need to be included in the auditor's report.

(4 marks)

ii) *The directors agree to disclose the note*

Where Zealow & Associates consider that the going concern assumption is **appropriate, but a material uncertainty exists and the Directors of Duakwanta LTD agree to disclose the same**, the auditor must consider whether the financial statements:

- adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with those events or conditions. This will include the cash flow issues, a description of the financing being sought etc and
- disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

If there is **adequate disclosure**, then the auditor shall express an unmodified opinion. However, he would add a separate section to the auditor's report immediately after the '**Basis for Opinion**' paragraph entitled **Material Uncertainty Relating to Going Concern**. The separate section would:

- highlight the uncertainty;
- draw attention to the relevant note in the financial statements; and
- state that the audit opinion is not modified in respect of this matter.

A minor amendment would be made in the introductory paragraph of the *Key Audit Matters* section (if relevant) making reference to the *Material Uncertainty Relating to Going Concern* paragraph.

However, if the disclosures are inadequate, a qualified except for should be issued if the impact is material and not pervasive or adverse opinion may be issued if the impact is material and pervasive.

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidates' performance in answering requirement (a) was not encouraging. They developed few points for responsibility of management and that of auditors in relation to going concern which made them lose a lot of marks. Few of them were able to answer well on the procedures. Some candidates wrote on the general role and responsibilities of management and auditor rather than restricting it to going concern.

QUESTION FOUR

a)

Academic Performance

- i) % pupils in Primary 6 achieving A grade in June exams.

This KPI is specific and measurable. It specifies a definite set of pupils, and the percentage of pupils achieving an “A” grade is clearly measurable.

However, it does suffer from several difficulties.

First, focusing on just one set of exams runs the risk of anomalous results which are not statistically significant. Poor performance on this metric could simply be unlucky, and the same set of pupils sitting an exam on a different day could perform significantly differently. This could be remedied by using a metric that includes more than one set of exams, for example exams for more than one-year group, or first term and third term exams.

Second, by measuring A grades only, the relatively small number of pupils at the top of the achievement spectrum are focused on, i.e. those who are capable of achieving an A grade. The performance of many of the pupils is not included in this KPI. This could be improved upon by measuring a broader spectrum of achievement, for example the % of pupils achieving grades A to C (on a range of A to F).

Third, it is likely to be the case that many of Odano Primary's pupils are from socially disadvantaged backgrounds, which may mean that in absolute terms they achieve fewer top grades than pupils from more socially advantageous backgrounds. One way of trying to control for this would be to measure not the absolute grades achieved by pupils, but rather their relative improvement (or deterioration) during their time at the school. This could be measured by for example as the change in the percentage of pupils achieving grades A to C from year to year. The school as a whole could be measured as the average percentage change.

(1.5 marks)

- ii) An alternative KPI in this area might be: Average % change in % of pupils achieving grades A to C in end of year examinations from primary 4 to 6.

(0.5 mark)

- iii) Evidence should be obtained from published examination results for all end of year exams taken by pupils from primary 4 to 6. From this it would be possible to recalculate the total number of grades A, B and C as a % of the number of pupils sitting the exam. The average % change from year to year could then be calculated from this.

(0.5 mark)

School Attendance

- i) Average % of pupils absent from registration at 8:30am.

This KPI fails to specify a time period over which the average is to be calculated. This could be specified as the annual average. The KPI makes the mistake of identifying attendance at registration at 8:30am with attendance throughout the school day. Some school pupils have been reported as being in the city centre when they should have been at school. It is therefore possible that they were in attendance at registration at the beginning

of the day before running away from school. The existing KPI would fail to register this absenteeism, a failing which could be rectified by taking a register at various points during the day, for example, at the start of every lesson.

(1.5 marks)

- ii) An alternative KPI in this area might be: Annual average % of pupils absent per school lesson.

(0.5 mark)

- iii) Evidence should be obtained by inspecting registers taken at the start of every lesson. If this data were input in electronic form, then calculating the % of pupils absent from each lesson should be straightforward. This would be the total number of pupil-lesson absences as a % of the total number of pupil-lessons attended.

(0.5 mark)

Participation in Sport

- i) Number of trophies won by school sports teams.

It is possible that a school more of whose pupils participate in school sports may win more trophies than one of whose pupils fewer participate in sports. This is, however, a poor measure of participation.

It is possible that pupils may participate in school sports without affecting the number of trophies won. Many pupils may participate without ever winning a trophy or contributing to trophy-winning teams. These pupils should be included in any measure of participation.

A better measure might therefore refer to the amount of time spent playing sport, and to the proportion of pupils who play it. Focusing on time, one might measure the number of pupils playing sport for at least three hours per week. Focusing on the proportion of pupils participating, one might measure the percentage of pupils playing at least some (e.g. one hour) sport per week.

(1.5 marks)

- ii) An alternative KPI in this area might be: Annual average % of pupils playing sport for at least two hours per week.

(0.5 mark)

- iii) On the assumption that sport is played in Physical Education lessons, both the average attendance of these lessons and their average weekly duration would need to be verified. Attendance could be extracted from registers kept in lessons, calculating the proportion of pupils attending lessons for the year to generate an average per week. Duration could be assessed by inspecting school timetables for evidence of lesson duration.

(0.5 mark)

Uniform

- i) % of pupils whose school uniforms are in line with regulations.

This KPI is less problematic than many of the others given. Its chief defect is that it fails to take account of the underlying population of the pupils attending the school, and in particular the lack of economic means of many of their families. Put simply, it is possible that many of those pupils whose uniforms are not in line with regulations are in this state because their parents cannot afford to buy them new uniforms as required. The KPI needs to take this into account, for example by measuring only the percentage of pupils not receiving free school meals.

(1.5 marks)

- ii) An alternative KPI in this area might be: % of pupils not receiving free school meals whose school uniforms are in line with regulations.

(0.5 mark)

- iii) This KPI should be tested by recalculation of the required percentage, adjusting for pupils receiving free school meals. Procedures here would include selecting a sample of pupils for inspection in respect of their uniforms, perhaps at unannounced dates during the school year.

(0.5 mark)

b) Publishing Report after laying it with the Speaker of Parliament

The reports of the Auditor General are not draft reports. They are final report duly signed for distribution. The law has it that Parliament should have it first. However, parliament does not control the work of the auditor general. The auditor General is functionally and administratively independent of the parliament and the executive. The audit service law states that auditor general's report should be published as soon as the reports have been presented to the Speaker to be laid before Parliament. The timeliness and the frequency of the report assures the general public of the independence and the accountability of institutions established to ensure that those charged with the country's natural resources are held accountable.

The Auditor General is therefore, not wrong for publishing the report after a copy has been given to the office of the speaker before it is laid with the Public Account Committee for discussion.

The issue of mistakes in Audit Reports

The question does not lie with the publication just after the report has been laid with the speaker. The issue is with the quality of the auditor-general's report itself. If mistakes are uncovered during the sitting of Public Accounts Committee, then the report was not properly reviewed before finalization.

Mistakes can occur in audit report for various reasons;

- Poor planning resulting from none appreciation of the auditees functions and programmes,
- Poor execution of the audit work due to poor audit methodology,
- Poor quality staff,
- Use of standards which have already been revised
- Poor appreciation of standards.
- Typographical errors, etc.

However, poor audit reviews can cause much havoc since all the undetected mistakes will form part of the report. It is therefore necessary for proper review system to be put in place to cure incessant mistakes in the auditor general's report. Audit work should be properly reviewed. The reviewers should be senior staff with professional qualifications and experience, who can appreciate the objective and the functionality of the institutions being audited. The reviewers should have enough time for the review work. They should have enough time to question the work being evaluated to satisfy all skepticism, check accuracies and reasonableness of all findings and recommendations and make sure all guidelines and checklists and procedures are followed before passing the audit work for completion.

The quality control section should also be strengthened to ensure that standards and procedures are designed to provide reasonable assurance that the work performed by audit staff meets the required quality standard of a reputable audit institution.

Where an audit work needs expert supervision, effort should be made for engagement of an expert to advise, supervise and review the audit work. This will instill professionalism in the service delivery of the institution.

The Ghana Audit Service should also have stringent procedures, programmes, standard forms, checklist etc., that when followed, can help the audit staff to assess auditee institutions and perform independent work to ensure that an audit work is done thoroughly to the standard of best practice.

There is the need for Audit Service to train their staff to perform to the standard of best practice, this calls for periodic training. Audit staff should be assessed on each work they perform to enable them to know their weaknesses and be helped correct the weaknesses on subsequent jobs. In a situation of lack of adequate staff to complete the work on time hence, audit work is done in hasty, more audit professional should be employed. if it is necessary for audit service law to be amended for the reporting time to parliament to be moved forward so that good work can be done, that should be advocated for action to be taken.

(6 marks)

- c) State Audit Institution (SAI) enhances its transparency in a number of ways, including the following:
- 1) **SAIs perform their duties under a legal framework that provides for accountability and transparency.** - SAIs should have guiding legislation and regulations in terms of which they can be held responsible and accountable.
 - 2) **SAIs make public their mandate, responsibilities, mission and strategy public** - The SAIs make publicly available their mandate, their missions, organisation, strategy and relationships with various stakeholders, including legislative bodies and executive authorities.
 - 3) **SAIs adopt audit standards, processes and methods that are objective and transparent.** SAIs adopt standards and methodologies that comply with ISSAI 100 Fundamental Principles of Public-Sector Auditing.
 - 4) **SAIs apply high standards of integrity and ethics for staff of all levels.** SAIs have ethical rules or codes, policies and practices that are aligned with ISSAI 130 - Code of Ethics.
 - 5) **SAIs ensure that these accountability and transparency principles are not compromised when they outsource their activities.** SAIs should ensure that contracts for outsourced activities do not compromise these accountability and transparency principles.
 - 6) **SAIs manage their operations economically, efficiently, effectively and in accordance with laws and regulations and reports publicly on these matters.** SAIs employ sound management practices, including appropriate internal controls over its financial management and operations. This may include internal audits and other measures.
 - 7) **SAIs report publicly on the results of their audits and on their conclusions regarding overall government activities.** SAIs make public their conclusions and recommendations resulting from the audits unless they are considered confidential by special laws and regulations.
 - 8) **SAIs communicate timely and widely on their activities and audit results through the media, websites and by other means.** SAIs communicate openly with the media or other interested parties on their operations and audit results and are visible in the public arena.
 - 9) **SAIs make use of external and independent advice to enhance the quality and credibility of their work.** SAIs comply with the International Standards of Supreme Audit Institutions and strive for continued learning by using guidance or expertise from external parties.

(4 relevant points @ 1 mark each = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was poorly answered by majority of the candidates. Some candidates did not understand what KPI is, hence recommending alternative KPI's became a problem.

QUESTION FIVE

- a) Policy guidelines the Board should develop with respect to conflict of interest.

The Board shall have a policy with respect to conflicts of interest that:

a) Requires disclosure by directors when being considered for appointment and thereafter, annually or on the occasion of significant changes, of any outside financial, economic or other interest;

(b) Provides for the Board to consider disclosures by candidates for Board membership so as to determine if a conflict of interest is such that a reasonable person would conclude that the director was likely to be influenced by that conflict when considering a matter before the Board;

(c) ensures that no director holds the position of director of a company that is licensed as a broker/dealer under Section 109 of the Act;

(d) defines the procedures for considering whether a director's outside appointments or any other matter amount to a material conflict of interest and if so to consider the action necessary to resolve the conflict including:

- (i) withdrawing from any discussion on a particular matter; and
- (ii) receiving no papers or other information on a matter; or
- (iii) if necessary, resigning from the Board; and defines the procedures for avoiding any misuse of the position of director.

(e) The policy shall enable the Board to require a director to resign if conflicts of interest appear to be too severe to permit the director to remain a member of the Board.

The policy shall also include the steps the Board have taken to ensure that the directors comply with Section 153 of the Securities Industry Act and, in particular to: (a) (b) maintain a register, including directors, of those who should be regarded as "insiders"; and require directors to disclose trading in shares of the company.

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

b)

Arguments for auditing all companies

- Audits help detect errors, fraud, and accounting irregularities, protecting shareholders, creditors, and the public.
- Audited financial statements increase trust in a company's reported performance, encouraging investment. Small businesses benefit from credibility when seeking loans or partnerships.
- Mandatory audits reduce tax evasion and ensure adherence to accounting standards.
- Employees, creditors, and suppliers depend on accurate financial reports to assess a company's stability.
- Universal audit requirements eliminate loopholes where small firms might avoid scrutiny despite risks.

Arguments against auditing all companies

- Audits are expensive, disproportionately burdening start-ups and SMEs.
- Could discourage entrepreneurship due to compliance complexity.
- Audits are not foolproof, they focus on historical data, not real-time fraud prevention.
- Small companies can use review engagements, which are cheaper than full audits.
- A micro-business with few transactions doesn't need the same scrutiny as a multinational corporation.

(8 relevant points @ 1.25 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Sub-question (5a) required candidates to identify five policy guidelines the board should develop with respect to conflict of interest. With exception of few candidates who gave very good answers, most of the candidates could not answer the question well.

Sub-question (5b) aimed at assessing candidates to give four arguments in favour of and against the audit of all companies. In certain instances, candidates did not classify their point under *in favour* and *against*, they rather put all points against or in favour as a heading.

These accounted for many deviations by a lot of candidates.

CONCLUSION AND RECOMMENDATIONS

- Candidate must learn the relevant standards very well in order to apply where necessary in answering questions.
- Candidates must also give themselves enough time to prepare well before writing the examination.