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

EXAMINER'S GENERAL COMMENTS

Performance in this examination varied significantly across the candidate population. The overall level of preparedness among candidates was a matter of concern. Several candidates appeared to have an incomplete grasp of essential auditing and assurance concepts, which suggested insufficient engagement with the syllabus and study materials. Their responses often indicated gaps in both understanding and examination technique, with some candidates failing to address all parts of a question or demonstrating weak time management skills.

PERFORMANCE OF CANDIDATES

The performance of candidates in the November 2025 diet showed a marked improvement compared to the previous sitting. Overall performance was above average, with a pass rate of 53.34%, a significant increase from the 30.02% recorded in the July 2025 examination. This upward trend indicates better preparation and a stronger grasp of the subject matter among candidates in this diet.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Strengths

Candidates in the November 2025 diet demonstrated several commendable strengths. Among others are:

- Improved understanding of key auditing principles compared to previous diets.
- Strong analytical skills shown by candidates who were able to identify audit risks and recommend appropriate audit responses.
- Clear articulation of ethical and professional requirements, with well-structured and logically presented answers.
- Effective integration of practical examples by some candidates, reflecting better preparation and comprehension of the syllabus.

Weaknesses

Candidates, however, showed weaknesses in the following:

- Some wrote the wrong question numbers for the answers provided. Some did not write the question numbers to which responses related.
- Some candidates' handwriting was so bad that it took 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.
- Many candidates over elaborated on answers without considering the marks allotted to the question.
- Poor time management, resulting in incomplete answers or insufficiently developed responses.
- Disorganised communication and lack of focus in answers from weaker candidates, indicating inadequate preparation and weak question-interpretation skills.

QUESTION ONE

a) You are a Senior Partner at Gbolonyor & Associates, a firm of Chartered Accountants licensed by the Institute of Chartered Accountants, Ghana (ICAG). Your firm has recently been contacted by Kponkpor Microfinance LTD (Kponkpor), a regulated financial institution supervised by the Bank of Ghana (BoG), to replace its current auditors who resigned unexpectedly.

Kponkpor has been in operation for over six years and recently expanded its footprint into rural and peri-urban communities. The company's Board has decided to engage new external auditors, and your firm is under consideration.

Your initial review of Kponkpor's correspondence and Board minutes revealed the following:

- The previous auditors, Folivi Chartered Accountants (Folivi), resigned mid-way through the audit engagement for the year ended 30 June 2024. The resignation was due to unresolved disputes with management, particularly over disclosure of related party transactions, which Folivi believed were material and required greater transparency.
- Despite Folivi's resignation, Kponkpor did not notify the Office of the Registrar of Companies within the applicable statutory period.
- The company also failed to convene a shareholders' meeting to formally discuss the reasons for the resignation of Folivi and seek approval for the appointment of a new auditor, contrary to Sections 139 and 141 of Act 992.
- Furthermore, the company has not obtained a written statement from Folivi, explaining the circumstances of their resignation, nor made the required disclosures to the Bank of Ghana, which mandates notification of such changes under its licensing conditions.

Required:

i) Discuss the legal and ethical procedures for the resignation and appointment of external auditors under the Companies Act, 2019 (Act 992) and relevant ethical standards. **(5 marks)**

ii) Explain **THREE** implications of Kponkpor's failure to follow due process and recommend **TWO** corrective actions. **(5 marks)**

b) You are a Manager in Dansoaa & Associates, a firm of Chartered Accountants in Ghana that provides a wide range of assurance and advisory services. As part of the firm's system of quality management, an independent and ethical review must be conducted before accepting new clients or continuing with existing engagements.

The following information is relevant to your assessment:
Sibor Group is a premium food and beverage distribution company that operates in Ghana, Liberia and Côte d'Ivoire. The company plans to list on the Ghana Stock Exchange by 2027. Although not yet an audit client, Dansoaa & Associates currently provides non-audit services including sustainability assurance and strategic consulting.

The company's Finance Director has invited Dansoaa & Associates to tender for the audit of the consolidated financial statements for the year ending 31 October 2025. The Finance Director has expressed a preference for working with Dansoaa & Associates due to the strong relationship already developed through their sustainability assurance engagements.

Below is a breakdown of fees earned to date:

Summary of Fees – Sibor Group

Date Billed	Service	Amount (GH¢)
31 Dec 2023	Sustainability Assurance	96,000
31 Dec 2023	Strategy Consulting	158,000
31 Dec 2024	Sustainability Assurance	102,000
31 Dec 2024	Fraud Risk Assessment	180,000

If Dansoaa & Associates accepts the audit, the proposed audit fee will be GH¢452,000 which includes a 10% discount in recognition of the expected long-term relationship and strategic importance of the client.

Dansoaa & Associates expects to earn approximately GH¢1.6 million in total fees for 2025, excluding the proposed audit fee.

Required:

Evaluate the professional and ethical considerations which should be considered before accepting the audit engagement based on the following:

i) Fees. **(4 marks)**

ii) The firm's existing relationship with Sibor Group. **(4 marks)**

iii) The client's intent to list. **(2 marks)**

(Total: 20 marks)

QUESTION TWO

You are an Audit Senior at Kokuroko & Associates, a licensed audit firm regulated by the Institute of Chartered Accountants, Ghana (ICAG). You are beginning the audit planning for Nchoma LTD (Nchoma), a new client, for the year ending 31 August 2024.

Nchoma is a well-established Ghanaian manufacturer of decorative and industrial paints, having operated for over 45 years. The company operates from a single industrial site in the Western North Region, which houses its production plant, distribution warehouse and corporate head office.

Nchoma distributes its products nationwide, mainly through bulk sales to major home improvement retailers. Approximately 60% of its sales go to a leading Ghanaian retail chain, Danpapa LTD, with which it has secured a one-year exclusive supply agreement. To secure this deal, Nchoma significantly reduced its prices and extended its credit terms from the usual 30 days to 120 days. This arrangement has placed pressure on the company's working capital.

Due to increasing production costs, unreliable electricity supply and rising inflation, Nchoma now imports about 65% of its paint products in semi-finished form from Singapore and Vietnam. The remaining 35% is locally manufactured. Imports are ordered six months in advance, and the goods are usually in transit for up to eight weeks via the Port of Takoradi.

Inventory is only recorded upon receipt at the company's warehouse. This year, the company introduced a perpetual inventory counting system to reduce the cost and disruption of a full year-end count. The warehouse has been divided into 12 zones, each scheduled for physical counting once annually. Each count team comprises one Internal Auditor and one Warehouse Supervisor. The counting process includes:

- Printing system-reported inventory data before each count.
- Physically comparing quantities and descriptions to system records.
- Recording discrepancies and identifying obsolete or damaged stock.
- Submitting all findings to the finance department for updates.
- Continuing normal warehouse operations during counts, without halting inventory movements.

Historically, Nchoma applied a 1% inventory provision for obsolescence but is now planning to eliminate this provision due to perceived improvements in inventory monitoring.

In May 2024, the company's Finance Director (FD) resigned abruptly following a disagreement with the CEO over financial reporting disclosures. The former FD has since filed a legal complaint alleging wrongful dismissal. Management, however, has refused to make any financial provision or note disclosure, asserting the case lacks merit. The Finance Manager has temporarily assumed the former FD's duties pending the recruitment of a new FD. This change has weakened the company's financial oversight during a crucial financial reporting period.

Required:

a) Identify **FIVE** audit risks relevant to Nchoma. For each risk, suggest appropriate audit responses to guide your planning. **(10 marks)**

b) Discuss the importance of risk assessment at the planning stage of an audit. **(4 marks)**

c) Recommend **THREE** sufficient and appropriate evidence to verify each of the following:

i) The valuation of inventory. **(3 marks)**

ii) The completeness of provisions or contingent liabilities, including the legal case. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

You are the Audit Manager at Katakyie & Partners, and are completing the audit of Wamfie Microfinance LTD (WML), a licensed microfinance company in Ghana, for the year ended 31 December 2024. The audit has raised several matters to be discussed with those charged with governance before signing the auditor's report. WML prepares its financial statements under the Bank of Ghana's Regulatory Reporting Framework for Microfinance Institutions, which differs in several respects from IFRS (e.g. loan loss provisioning rules and capital adequacy disclosures). The Engagement Partner has reminded you that this constitutes a special purpose framework.

During the audit, the following matters were identified:

i) **Internal Control Deficiencies – Loan Approval Process**
Loan officers could process applications, approve and disburse funds up to GH¢100,000 without independent review. This led to several non-performing loans that had to be written off.

ii) **Independence Threat - Audit Committee**
The Chair of the Audit Committee is also a shareholder of WML with significant influence. During the audit, the Chair exerted pressure on the audit team not to highlight high levels of loan defaults in the management letter, arguing it would damage investor confidence.

iii) **Special Purpose Framework Reporting**
The financial statements are prepared in line with the Bank of Ghana's regulatory framework, as such, certain disclosures normally required by IFRS (such as detailed fair value measurement and IFRS 9 credit impairment models) have been omitted. The financial statements include a note explaining that they are prepared solely for compliance with Bank of Ghana regulations.

iv) **Significant Misstatement Identified**
The loan impairment provision required by the Bank of Ghana rules (GH¢10 million) is materially lower than what would be required under IFRS 9 (GH¢25 million). Management has refused to adjust, stating that compliance with BoG rules takes precedence.

The Engagement Partner has asked you to prepare an analysis of the reporting and communication responsibilities under the relevant ISAs.

Required:

a) Evaluate the auditor's responsibilities for communicating with those charged with governance under ISA 260 (Revised) in respect of issues (i) to (iv). **(8 marks)**

b) Discuss how the internal control deficiency in (i) should be communicated in accordance with ISA 265. **(4 marks)**

c) Explain the auditor's reporting considerations where the financial statements are prepared under a special purpose framework in line with ISA 800 (Revised), particularly in respect of issue (iii). **(3 marks)**

d) Advise on the appropriate audit opinion and reporting implication in respect of the loan impairment issue (iv). **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Under the Public Financial Management Act 2016, (Act 921) and the Public Financial Management Regulations 2019, (L.I. 2378), the Controller and Accountant General has the legal mandate to manage the public accounts and to prepare for the audit of the financial statements of Government for each financial year. The financial statements are expected to comply with the fundamental principles of accounting and the applicable international reporting standards.

In May 2025, the Controller and Accountant General prepared and submitted the 2024 annual whole-of-government financial statements to the Auditor-General for his action. The Auditor-General is required to audit and submit his report by close of June 2025 to Parliament.

Required:

i) Evaluate ***risk-based audit*** and ***compliance audit***. **(6 marks)**

ii) Recommend to the Auditor-General the appropriate audit approach for the 2024 financial statements audit to form a reliable opinion. **(4 marks)**

b) The Ministry of Health recently launched a GH¢**350 million project** to improve healthcare delivery by constructing and equipping 15 district hospitals across the country. The project was scheduled to be completed within three years.

After two and a half years, the following concerns have been raised by Parliament and Civil Society Organisations:

- Only seven hospitals are near completion, while others have stalled.
- The cost of some equipment appears significantly higher than market prices.
- Some completed facilities are already showing defects due to poor construction.
- There is uncertainty whether the project will achieve its intended objectives of improving healthcare access and reducing patient overcrowding.

The Auditor-General has mandated your audit firm to conduct a ***performance audit*** of the project.

Required:

i) Explain the **TWO approaches to performance audit** and discuss how each approach could be applied in the case above. **(6 marks)**

ii) Define ***audit criteria*** in performance audit, and suggest **THREE suitable audit criteria** for evaluating the Ministry of Health's hospital project. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Kokompe Motors Ghana LTD (Kokompe) is a private limited liability company based in Berekum, specializing in the design and manufacture of affordable motor vehicles for customers in Ghana and across West Africa. Although Kokompe is not listed on the Ghana Stock Exchange, its board has recently expressed a desire to strengthen its corporate governance structures by aligning with best practices prescribed under the Companies Act 2019, (Act 992) and the Corporate Governance Code of Best Practices.

The company has six shareholders, four of whom are also executive directors actively involved in the day-to-day operations, and the other two are passive shareholders, with no management involvement.

The Finance Director recently resigned without giving any reason.

Kokompe has an internal audit department, headed by Mr. Abrefi Henneh, who has expressed the following concerns:

- The board does not understand or act on his audit reports.
- There is inadequate support for internal audit and internal controls.

Opoku & Associates, the company's external auditors, have also raised similar concerns in their recent management letter. In response, Mr. Abrefi Henneh has proposed setting up an Audit Committee. The proposed membership includes:

- Mr. Attipoe (Audit Committee Chair, Executive Director with financial experience)
- Efua Manza (Chief Internal Auditor)
- Doku Frantra (Executive Director with financial experience)
- Awulai Nyameke (Non-Executive Director)
- Kwabena Afari (Non-Executive Director)

Kokompe's board is exploring a major expansion into Togo and Nigeria. However, the company's bankers are hesitant to provide additional funding, citing weak internal controls, inconsistent financial reporting, the recent resignation of the Finance Director and delays in providing updated financial statements. The board is postponing the provision of financial reports until a new Finance Director is appointed.

Required:

i) Discuss **FOUR** ways an Audit Committee can function properly in a private Ghanaian company like Kokompe. **(6 marks)**

ii) Based on the Corporate Governance Code of Best Practices, assess the suitability of the proposed composition of the Audit Committee. **(4 marks)**

b) You are a Senior Manager at Kyire & Quansah Assurance, a firm of Chartered Accountants and sustainability assurance providers based in Accra. Your firm has been appointed to perform a limited assurance engagement on the 2024 Sustainability Report of Savannah Valley LTD, a major agro-processing company that exports shea butter and organic cocoa products to ASEAN and North America.

Savannah Valley LTD voluntarily prepares sustainability reports in line with the Global Reporting Initiative (GRI) Standards and has recently committed to align its reporting with

the IFRS Sustainability Disclosure Standards (IFRS S1 & S2). This is your firm's first assurance engagement with Savannah Valley.
You received the following email from the Chief Sustainability Officer (CSO) of Savannah Valley LTD.

Subject: Request for Assurance Scope Clarification and Guidance on ESG Metrics
Dear Sir,
As we prepare to finalise our 2024 Sustainability Report, we seek your professional guidance on a few matters related to the assurance process.

- This is our first external assurance engagement on non-financial information, and we would like to know the difference between limited assurance and reasonable assurance in the context of ESG disclosures. We also want to understand what standards your firm will follow (ISAE 3000 (Revised), GRI, ISSB, ISSA 5000 etc.).
- One area of concern is our greenhouse gas (GHG) reporting. We calculate emissions using estimates for Scope 3 emissions, including transportation emissions from third-party distributors. Can these still be assured? What level of documentation is required?
- Our community impact programmes include partnerships with local women's co-operatives and reforestation initiatives. However, some of the programme data are qualitative in nature (e.g. narratives from community beneficiaries). Can such social impact disclosures be included in the assurance scope?
- What types of audit evidence would your team typically rely on when performing assurance over social and environmental data, especially for qualitative or estimated metrics and targets?

We would appreciate it if you could clarify these points before the inception meeting next week. We want to ensure transparency and alignment with emerging sustainability reporting expectations.

Warm regards.

Worlanyo Obuobi
Chief Sustainability Officer
Savannah Valley LTD

Required:

i) Discuss the key differences between ***limited assurance*** and ***reasonable assurance*** engagements in the context of sustainability and environmental reporting. **(5 marks)**

ii) Identify and explain the types of audit evidence that may be obtained to support social and environmental assurance engagements. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a)

i) **Legal and Ethical Procedures**

- **Resignation Notification (Section 139 of Act 992)**
  Under Section 139 and 141 of the Companies Act, when an auditor resigns, the company must notify the Registrar of Companies within 14 days of receiving the notice. The auditor must also submit a written statement of the circumstances that led to the resignation.

- **Shareholder Meeting and Appointment Process**
  Appointment of a new auditor following a resignation must be approved by members in a general meeting. The company cannot proceed with appointment solely via board resolution. This ensures transparency and accountability.

- **Right to Speak at General Meeting**
  The outgoing auditor is entitled to receive notice and attend the general meeting where the new auditor is to be appointed. They may also make written or oral representations to shareholders, as per Act 992.

- **Notification to Bank of Ghana**
  As a regulated entity, Kponkpor is required to notify the Bank of Ghana of changes in auditors within 10 days, as per licensing directives. This enables regulatory oversight of audit quality and integrity.

- **Ethical Communication Between Auditors (IESBA Code and ISQM 1)**
  The incoming auditor (Gbolonyor & Associates) should obtain consent from the client to communicate with the previous auditor. This communication must include any reasons for resignation or disputes. This is an ethical requirement under the IESBA Code.

(5 points for 5 marks)

ii) **Implications**

- **Breach of Company Law**: Failure to notify the Registrar and hold a shareholder meeting violates Act 992 and may attract penalties or sanctions.
- **Risk of Invalid Appointment**: Any audit performed under an improperly appointed auditor may be legally challenged and could lack credibility.
- **Regulatory Breach**: Non-notification to the Bank of Ghana may result in supervisory action or reputational damage.

(Any 3 points for 3 marks)

Recommendations:

- Immediately notify the Registrar and the Bank of Ghana about the resignation.
- Convene an extraordinary general meeting to formalize auditor appointment.

- Obtain and share the written resignation statement from Folivi Chartered Accountants.
- Ensure pre-appointment communication occurs between the outgoing and proposed auditor.

(Any 2 points for 2 marks)

b) **Professional and Ethical Considerations in Accepting Sibor Group Audit Engagement**

i) **Fees**

Dansoaa & Associates is expected to generate over GH¢600,000 in total fees (including audit), which represents over 30% of total client billings. This creates a significant self-interest threat, as the firm may be financially reliant on this client.

Safeguards

- Disclose the fee dependency to the Audit Committee.
- Implement a mandatory Engagement Quality Review for the audit.
- Conduct an independent post-issuance review by a partner unconnected to the engagement.

(4 marks)

ii) **Existing relationship with the client**

Provision of Non-Audit Services – Familiarity, Self-Review, and Advocacy Threats

The firm provides assurance on sustainability reports, strategy consulting, and fraud risk services. These services may impair independence, particularly if outputs are used in preparing financial statements.

Safeguards

- Segregate audit and non-audit teams.
- Review past engagements to ensure no overlap with financial reporting.
- Consider declining the audit engagement if threats cannot be reduced to an acceptable level.

(4 marks)

iii) **The client's intent to list– Self-interest threats, Advocacy Threat, Familiarity threats and Self-review threats**

- The Finance Director's preference for Dansoaa & Associates due to existing relationships may create a perceived loss of independence and Self-interest threats, Advocacy threats, Familiarity threats and Self-review threats.
- As the firm has not been listed yet, Dansoaa & Associates can provide audit-related services to their client once it becomes a listed firm. Dansoaa & Associates can no longer provide audit-related services to Sibor Group, as this may pose a self-review threat.
- Auditing a company planning to list increases the audit firm's litigation exposure, as more stakeholders rely on the financial statements.
- When a prospective client intends to list on a stock exchange, the auditor must apply enhanced professional, ethical, and risk-assessment procedures before accepting the engagement. This is because listed entities are subject to stricter

regulatory, governance and public interest requirements. For listing clients, integrity risk is especially critical due to potential pressure to inflate profits or enhance financial position to attract investors.

Safeguards

- Dansoaa & Associates must assess whether it has the technical skills and experience to audit Sibor Group. If the firm lacks capacity, it should decline the engagement.
- Ensure a transparent, competitive tender process.
- Assign senior audit team members who have not previously worked with Sibor Group
- Maintain robust documentation of the decision to accept the engagement.
- If engagement risk is excessively high and cannot be mitigated, the auditor should not accept the engagement.

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidates' performance in this question was mixed. Most candidates demonstrated a good grasp of statutory audit requirements under Act 992 and showed the ability to apply ethical principles to realistic professional scenarios. However, some scripts lacked depth, failed to cite relevant laws, and did not fully address the scenario-based elements of the question. Poor time management was evident as there were several incomplete responses.

QUESTION TWO

a) Audit risks and the appropriate audit responses.

Audit risk	Response
To secure a one-year exclusive supply agreement with Danpapa, Nchoma has extended its credit period from the usual 30 days to 120 days, which may result in cash flow problems which could impact Nchoma's going concern status.	Review cash flow forecasts to determine how Nchoma is intending to finance the pressure on the company's working capital. Review any overdraft limits in place to determine whether limits will be breached, and discuss with directors whether they have any alternative sources of funding available to them. Review any bank correspondence relating to the above matters.
Revenue Recognition Risk with Danpapa contract. Nchoma has secured a large customer by reducing prices and offering extended credit terms. This could pressure management to recognize revenue prematurely to meet targets.	Review the terms of the contract with Danpapa. Perform cut-off testing to ensure revenue is recognized in the correct period. Confirm receivables and review post-year-end receipts to assess collectability. Evaluate whether the extended credit period justifies an allowance for doubtful debts
The selling prices of goods sold to Danpapa are heavily discounted and this may mean that inventory is overstated if the net realisable value of goods has fallen below their cost.	Obtain a breakdown of the cost of a range of inventory items and compare these to the sales prices achieved for such items to determine whether the selling price is above cost.
Inventory valuation – mix of imported and locally manufactured goods. 65% of goods are imported and may be subject to price fluctuations, foreign exchange risk, and shipping delays. There's a risk inventory is not stated at lower of cost and net realizable value (NRV).	Review inventory valuation methods used. Recalculate foreign exchange adjustments. Inspect post-year-end sales invoices to estimate NRV. Confirm the inclusion and accuracy of import duties, shipping, and other related costs in inventory. Physically inspect inventory for obsolescence
Nchoma has a large amount of redundant plant and equipment which is no longer used because Nchoma now imports about 65% of its paint products in semi-finished form and produces only 35% of its capacity. It is possible that the recoverable amount (scrap value) of	Obtain a breakdown of the carrying amount and estimated scrap value of the redundant plant and equipment. Where an item appears to be impaired (because the scrap value is less than the carrying amount), discuss the asset's valuation with the directors

such items is below their carrying amount and the assets are impaired, leading to an overstatement of plant and equipment in the financial statements.	and request that the carrying amount be adjusted accordingly.
Change to Perpetual Inventory System. The shift to a continuous inventory system mid-year introduces risks of errors, inconsistencies, or manipulation. Also, inventory movement during counts undermines accuracy	Observe at least one inventory count. Evaluate the design and implementation of the new perpetual system. Review reconciliation procedures. Perform year-end inventory testing including roll-forward procedures and analytical reviews. Assess IT controls over the inventory management system. Document the new system and review the results of the periodic counting to determine the level of errors experienced in the new system in order to conclude whether is operating effectively.
Nchoma records its inventory when received for goods imported from Singapore and Vietnam but the fact that paint can be in transit for up to 8 weeks means it is possible that the purchase, payable and inventory are not recognised at the same time. This may mean that the cut-off of purchases, payables and inventory may be inaccurate, leading to an over or understatement of purchases, payables and inventory, depending on when each part of the transaction is recognised.	Review the agreement with Singapore and Vietnam importers to determine when the title of the goods being shipped passes to Nchoma. Extend the amount of cut-off testing performed at the year-end in relation to imported goods.
Previously, Nchoma maintained an inventory provision of 1% however, there is no such provision this year. There is a risk that inventory is overvalued if there are items of slow moving inventory which are no longer provided against.	Obtain a schedule of the inventory items which were provided for in the prior year and discuss with directors whether any of these items are still held at the year end and why no provision has been made. Calculate inventory holding period for each major inventory line and discuss the saleability of any slow moving lines with directors.
Management Override and Governance Weakness. The	Increase professional skepticism. Test journal entries and review

departure of the FD and the temporary role filled by the controller weakens internal control and increases fraud risk. Risk of incorrect disclosures or omissions	accounting estimates. Obtain legal confirmation
The company's finance director intends to sue Nchoma for unfair dismissal following his pre-year end departure. Nchoma does not intend to make any provision/disclosures in respect of this. There is a risk that provisions in the financial statements are understated or that a contingent liability disclosure has been omitted.	Review any legal correspondence from the finance director to obtain an understanding of the claim and also any correspondence from Nchoma's lawyer to determine their opinion on the likely outcome of the matter. Review the cash book post year end to determine whether any payments are made to the finance director.

1 mark per well-described risk
1 mark for each well-explained response.
(Overall maximum of 5 marks for risks and 5 marks for responses = 10 marks)

b) I**mportance of risk assessment at the planning stage.**
It is very important that auditors carry out this risk assessment at the planning stage because:

- **Directs Audit Focus**: Risk assessment helps the auditor identify areas with higher risk of material misstatement so that audit resources are concentrated efficiently.
- **Improves Audit Efficiency**: By focusing on key risks early, unnecessary work is reduced and material areas receive appropriate attention.
- **Compliance with ISAs**: ISA 315 requires auditors to assess and identify risks as part of audit planning.
- **Professional Judgment and Skepticism**: Early risk identification helps apply professional skepticism and informs the selection of audit procedures tailored to the entity's specific context.
- **Understanding the Client**: It helps the auditor gain an understanding of the entity for audit purposes
- **Audit Strategy**: The risk assessment will form the basis of the audit strategy and the more detailed audit plan
- **Team members**: Once the risks have been assessed, audit team members of sufficient skill and experience can be allocated to maximise the chance of those risks being addressed
- Reduce the risk of expressing an incorrect opinion

(4 marks)

c) Substantive audit procedures:

i) **The valuation of inventory**

- Test a sample of inventory items to supporting documents (invoices, duty payments) to confirm inclusion of all relevant costs.

- Review inventory ageing reports, inspect slow-moving or damaged items, and compare with post-year-end sales to identify obsolete items needing write-down.
- Verify the cost of imported paint and materials to produce manufactured paint to supplier invoice costs.
- Confirm that the recorded inventory costs do not exceed the NRV by comparing the costs with the value of paint sales made after the year end.
- Review aged inventory reports and investigate older items to ensure they are valued at the lower of NRV or are already provided against.

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

ii) **The completeness of provisions or contingent liabilities, including the legal case**

- Discuss with management the reason for not providing for or disclosing a potential payment to the director for unfair dismissal and corroborate the responses with documentary evidence where possible.
- Request confirmation from the company's external lawyers regarding ongoing or threatened litigation.
- Review Board Minutes and Correspondence to check for any indication of legal, regulatory, or tax issues discussed by the board or management.
- Obtain written confirmation from management that all known liabilities and contingencies have been disclosed
- Review correspondence with the old finance director and the company's lawyers to help assess the likelihood of a claim being successful and to try to assess whether a reliable estimate of any potential payment is possible.
- Obtain written representations from directors confirming that they believe a potential liability is only a remote probability, and that is the reason for including no provision or disclosure on the matter.

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

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate the ability to apply ISA principles to scenario-based audit risk analysis, showing depth and practical understanding. However, most candidates provided generic responses, failed to tailor risks to the scenario, or did not understand the level of specificity expected at an advanced audit level. Future candidates are encouraged to practice case-based audit planning questions and improve their ability to link identified risks to the financial statements and appropriate audit procedures.

QUESTION THREE

a) **Communication with Those Charged with Governance – ISA 260**
Under ISA 260 (Revised), Communication with Those Charged with Governance, the auditor must communicate significant audit matters, including qualitative aspects of accounting practices, independence issues, and significant deficiencies in internal control.

Loan Approval Deficiencies

- Communicate to WML that inadequate segregation of duties increases risk of fraud and misstatement.
- Must include potential financial impact (write-offs, misstatements) and auditor's recommendations.

Independence Threat

- Communicate the threat to independence created by Audit Committee Chair's undue influence.
- Reference IESBA Code of Ethics (and ICAG's Code) — auditor must safeguard independence and report attempts to limit scope.

Special Purpose Framework

- Communicate to WML the implications of preparing FS under a framework that omits IFRS disclosures.
- Clarify that this affects comparability and may require an Emphasis of Matter in the audit report under ISA 706.

Loan Impairment Misstatement

- Communicate that the provision is materially misstated (GH¢15m understatement).
- Discuss implications for auditor's report if management does not adjust.

(2 points each for each matter @ 1 mark = 8 marks)

b) **Communicating Internal Control Deficiencies – ISA 265**
ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, requires that significant deficiencies be communicated in writing, timely, and with sufficient context.

The deficiency (loan officers approving, processing, and disbursing loans) represents a significant deficiency because it increases the risk of material misstatement due to fraud and error and has already resulted in non-performing loans and write-offs.

Auditor must:

- Describe the deficiency clearly.
- Explain its potential effects (financial losses, fraud risk).

- Provide a recommendation (e.g. segregation of duties, independent review above a certain threshold).

  Communication should be in the management letter addressed to WML, with oral communication supplemented by written.

(4 marks)

c) **Special Purpose Framework – ISA 800**
ISA 800 (Revised) applies when financial statements are prepared under a special purpose framework (regulatory, contractual, cash-basis, etc.).
Auditor's responsibilities

- Evaluate acceptability of the framework (Bank of Ghana rules are acceptable for regulatory purposes).
- Modify the auditor's report to:
  - ✓ Identify the special purpose framework.
  - ✓ Emphasize that FS may not be suitable for other purposes.
  - ✓ Restrict distribution/use if appropriate.
- Financial statements omit IFRS 9 impairment disclosures, but this is consistent with BoG framework.
- Auditor must include an Emphasis of Matter or Other Matter paragraph drawing attention to the framework's purpose and limitation.
- Opinion may still be unmodified if prepared properly in line with the special purpose framework.

(Any 3 points for 3 marks)

d) **Audit Opinion on Loan Impairment Misstatement**

- Loan impairment provision under BoG rules (GH¢10m) is materially lower than IFRS (GH¢25m).
- Evaluation:
  - ✓ Even under a special purpose framework, understatement of provision by GH¢15m creates a material misstatement.
  - ✓ ISA 800 requires the auditor to determine whether the financial statements, in the context of the special purpose framework, are fairly presented.
  - ✓ If misstatement is confined to loan provisions and not pervasive, Qualified Opinion ("Except for").
- Recommendation: Likely a Qualified Opinion, citing understatement of impairment as Basis for Qualified Opinion.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Overall, candidates demonstrated a reasonable understanding of auditors' communication and reporting responsibilities under the relevant ISAs. However, performance varied significantly across the four sub-questions.

Application skills were still weak in many scripts. ISA 800 (Revised) continues to be poorly understood. The ability to distinguish between communication duties and reporting implications requires improvement.

Candidates must practice integrating theory with real-world scenarios, especially in specialised sectors such as microfinance. Candidates who scored high marks were those who linked each audit issue directly to the relevant ISA requirement and demonstrated sound judgment in proposing the correct audit opinion.

QUESTION FOUR

a) **Evaluation of risk-based audit and compliance audit**

i) ***Risk based audit*** is the audit approach which helps the auditor to define the risk universe associated with management of the financial statement and to estimate risk appetite to enable him focus attention on risks of material misstatement in the financial statement. The approach helps efforts to be directed at the highest areas of potential errors and/or misstatements or fraud. It enhances efficiency in resource allocation and execution of the audit engagement.

With constraints of time confronting the Auditor General, he may design an audit plan that would provide sufficient audit evidence, aid his understanding of the processes of compilation and the risks associated with the processes and completeness of data which enabled the Controller and Accountant General to compile the whole-of-government financial statements for the year under review. For this reason, the Auditor General would conduct risk assessment as a preliminary process towards the audit. He would also design and take such other measures that impact positively on the audit assignments.

Compliance audit relates to an objective and systematic evaluation of an organisation's activities, financial transactions and operating procedures to assess whether they follow the processes and procedures, applicable laws, regulations, internal controls and internal policies to assess their effectiveness in the management of the affairs of the organisation and in achieving its financial mandate thereby assuring reliable financial reporting.

The compliance audit aims to obtain sufficient and appropriate evidence with a view to placing reliance on the internal operating procedures of the organisation which give impetus to the preparation of reliable financial statements.

The main aim of compliance audit stems from assessment of the degree of adherence to laws, and regulations which have been established to provide the financial environment for an effective financial reporting.

(3 marks for each audit type well explained = 6 marks)

ii) Recommendation of appropriate audit approach

While both audit approaches are equally excellent for the audit assignment at stake, however, considering the time constraints for the Auditor General to conclude this audit assignment, and submit his reports to Parliament, this could not allow for detailed and thorough audit to be conducted by way of compliance audit. It is therefore recommended to the Auditor General to conduct Risk-based audit.

The risk-based approach exhibits qualities that address the time constraints which is confronting the Auditor-General in the instance case and will ensure that a reliable audit opinion is formed based on effective risk assessment during the engagement.

The risk-based audit is an excellent approach that enhances efficient resource utilisation during audit engagement while still satisfying the expectation of

Stakeholders and dictates of the International Standards on Auditing required of Supreme Audit Institutions.

(4 marks)

b)

i) **Approaches to Performance Auditing**

Performance auditing focuses on assessing whether resources are used economically, efficiently and effectively. According to ISSAI 3000 (Performance Audit Standard), there are three major approaches.

- **Result-Oriented Approach:** This assesses whether the outcome or output objective has been achieved as intended, or whether programmes and services are operating as intended. For the Ministry of Health project, the auditor would assess whether the construction of 15 hospitals has improved access to healthcare and reduced patient overcrowding, as originally intended. It is suitable because it directly examines whether the project met its objectives (7 hospitals near completion vs. 15 targeted).

- **Problem-Oriented Approach:** This examines and analyses the causes of particular problems or deviations from the audit criteria of economy, efficiency and effectiveness. It focuses on specific problems or inefficiencies observed during the project.
  According to the case, the problems identified include stalled projects, inflated equipment costs, and defects in construction. The auditor can investigate these issues to determine root causes, such as weak procurement controls or poor contractor supervision.
  This is particularly relevant here because the audit was triggered by concerns raised by Parliament and civil society, which are specific to the problem. However, focusing only on problems may cause auditors to overlook broader systemic issues.

- **System-Oriented Approach:** This examines the proper functioning of a management system, such as a financial management system or a control system, and considers whether the system is functioning efficiently and effectively, or whether improvements can be made. It examines the adequacy and effectiveness of management systems and processes used to deliver the project.
  In this case, a system-oriented approach could help the auditor to assess the Ministry's procurement, project management, monitoring and quality assurance systems. Weaknesses in these systems may explain why hospitals stalled, equipment costs were inflated, and poor construction occurred.
  It is highly suitable because systemic weaknesses in project management may affect not just this project but future health infrastructure projects. However, it may not capture whether project goals (e.g. reduced overcrowding) were met.

(2 approaches well explained @ 3 marks each = 6 marks)

ii) **Audit Criteria for Performance Audit**

Audit criteria are the benchmarks against which performance is assessed. According to ISSAI 300/3100, criteria must be relevant, reliable, objective, and understandable.

(1 mark)

Possible criteria include:

- Planned vs. actual number of hospitals completed (effectiveness).
- Comparison of equipment procurement prices with prevailing market rates (economy).
- Quality standards for construction compared with actual outcomes (efficiency).

These criteria are realistic and measurable, allowing auditors to draw valid conclusions on whether funds were used effectively and whether value-for-money was achieved.

(Any 3 points for 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Overall, candidates who demonstrated the ability to apply public sector audit principles to the scenario performed well. However, some candidates provided generic definitions without evaluation, failed to relate answers to Ghana's public financial management laws, listed procedures instead of recommending an audit approach and did not tailor performance audit criteria to the hospital construction context.

Candidates are encouraged to strengthen their understanding of the legal and regulatory frameworks governing public sector auditing, and to practice applying audit concepts to real public sector scenarios. Reading past Auditor-General's reports and PFM-related audit publications will significantly enhance their ability to provide context-rich, analytical responses in future examinations.

QUESTION FIVE

a)

i) **Ways an Audit Committee can function properly.**

- Adequate resources and authority to discharge its responsibilities
- Authority to investigate any matter within its terms of reference
- Authority to employ professional advice or assistance if it considers this necessary
- Oversee the integrity of the accounting and financial reporting system.
- Full access to any information it considers relevant
- Review the quarterly and year-end financial statements of the company.
- Consider the appointment, resignation or dismissal of the external auditors and the audit fee.
- Satisfy itself that the external auditors are independent and properly qualified.
- Discuss with the external auditor before the audit commences, the nature and scope of the audit.
- Review management's response to the audit report and the auditor's letter to management.
- Be a channel of communication between the external audit function and the board.
- Review the adequacy of systems of internal controls and of the degree of compliance with material policies, laws and the code of ethics and business practices of the corporate body.
- Report to the board on all issues of significant extraordinary financial transactions.
- Assist the board in developing policies that would enhance the controls and operating systems of the corporate body.
- Provide a direct channel of communication between the board and the external and internal auditors of the corporate body, accountants and compliance officers (if any) of the corporate body.

(4 valid points @ 1.5 marks each = 6 marks)

ii) **Suitability of the proposed audit committee members**

In Ghana, the Code of Best Practices in Corporate Governance requires every corporate body at which the code is directed to have an audit committee. The Code of Best Practices in Corporate Governance stipulates that:

- The audit committee should comprise at least three directors, the majority of whom should be independent non-executive directors.
- The membership of the audit committees should ideally comprise directors with an adequate knowledge of finance, accounts and the basic element of the laws under which the corporate body operates or to which it is subject.
- The chairman of the committee should be a non-executive director.
- The managing director/chief executive officer, the finance director, the head of internal audit and a representative of the external auditors should ordinarily be invited to attend meetings.
  - ✓ Efua Manza is the chief internal auditor and so should not be part of the audit committee because she manages the team that will report to the audit committee. Her inclusion compromises independence.

- ✓ Executive director Mr Attipoe lacks independence. Though he has some financial experience, he is already an executive director and so should not be a member of the audit committee as well.
- ✓ The two new non-executive directors should be appointed to the audit committee provided that they are sufficiently independent and have the relevant skills.

Recommendation

The audit committee should comprise of at least three independent non-executive directors, with no executives or internal auditors as members with an adequate knowledge of finance, accounts and the basic element of the laws under which Kokompe Motors Ghana LTD operates.

(4 marks)

b)

i) **Differences between limited assurance and reasonable assurance**

The key distinction between limited and reasonable assurance engagements lies in the level of confidence the practitioner provides to the intended users of the report.

Limited Assurance: In accordance with ISAE 3000 (Revised), a limited assurance engagement involves procedures that are primarily inquiry and analytical in nature. The conclusion is expressed in a negative form, stating that "nothing has come to our attention that causes us to believe..." This type of engagement provides a moderate level of assurance. It is cost-effective and widely used for sustainability reporting due to the evolving maturity of ESG data.

(2.5 marks)

Reasonable Assurance: This type of engagement requires a higher level of evidence gathering, including detailed testing of controls, substantive testing, recalculations, confirmations, and inspection of supporting documentation. The conclusion is expressed in a positive form, e.g., "In our opinion, the information presented... is prepared, in all material respects, in accordance with...". It offers a high level of assurance, similar to an audit under ISA 200 for financial statements.

(2.5 marks)

The choice between the two depends on the maturity of the entity's sustainability reporting process, the expectations of stakeholders, and the assurance objectives set by the company.

ii) **Types of audit evidence that may be obtained to support social and environmental assurance engagements**

According to ISAE 3000 (Revised) and best practices in sustainability assurance, evidence for social and environmental information should be sufficient, appropriate, reliable and relevant. Common types include:

- Internal documentation: Policies, monitoring reports, training manuals, internal KPIs, management review documents.
- Third-party reports: Certification or inspection reports (e.g. Fairtrade, Rainforest Alliance), NGO validation reports.

- Interviews and inquiries: Discussions with project officers, programme managers, community leaders and data analysts.
- Site inspections and observations: Physical visits to project sites (e.g. reforestation areas), photo or video evidence to verify existence.
- Analytical procedures: Ration and trend analysis comparing year-on-year performance on emissions, energy usage, number of beneficiaries, etc.
- Re-performance or recalculation: Verifying accuracy of metrics such as carbon intensity per product or gender balance in programmes.

The evidence gathered must be documented clearly and form the basis of the practitioner's professional judgment and conclusion. If reliance is placed on internal data, the controls over data collection must also be assessed.

(Any 5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question tested both governance fundamentals and contemporary assurance skills areas in which candidates performed variably. Candidates' performance in this question was average as responses relating to Audit Committee was good. However, some candidates produced generic answers, failed to apply concepts to the company contexts, or omitted the practical consequences of poor committee composition or limited assurance scope.

It is recommended that candidates:

- Apply standards to facts, and always relate theoretical content to the scenario. Use precise language when comparing assurance levels, reference report wording, procedures and evidential thresholds. Sustainability assurance is evolving; read ISAE guidance and recent assurance reports to see practical evidence and report language.
- Keep a concise structure in answering questions, state the point, explain briefly, and, where applicable, illustrate with the scenario.

CONCLUSION AND RECOMMENDATIONS

Overall, candidates demonstrated a fair understanding of the core principles examined across the five questions. However, performance varied significantly, largely depending on the ability to apply theoretical knowledge to practical audit, governance, sustainability, and public sector scenarios. While many candidates showed potential, a considerable number struggled with the depth, application, and structure of their responses.

Key Weaknesses Observed Across the Paper

- Reliance on general textbook definitions without tailoring answers to the specific scenarios presented.
- Limited use of relevant standards (e.g., ISA 260, ISA 265, ISA 800, ISAE 3000, ISSA 5000, governance codes, PFM Act).

- Weak analytical skills, particularly in identifying risks, interpreting governance issues, and connecting assurance concepts to social, environmental sustainability contexts.
- Failure to answer all parts of a question or to explain points adequately after listing them.
- Insufficient real-world examples and poor linkage of evidence to sustainability, public sector performance, or audit risk scenarios.

Recommendations and Remedies for Improvement

- Candidates are encouraged to practice applying theoretical principles to scenario-based questions. Reading widely, especially case studies, auditors' reports, sustainability disclosures, and public sector audit reports. This will enhance their practical insight.
- Candidates should invest time in understanding the purpose and application of essential standards such as the International Standards on Auditing (ISAs), International Accounting Standards (IASs), International Financial Reporting Standards (IFRS), ISAE 3000, governance codes, applicable public financial management regulations and other regulatory requirements. The ability to apply these standards appropriately remains crucial.
- The exam increasingly assesses a candidate's ability to analyse scenarios, identify risks, evaluate governance issues, and recommend appropriate actions. Candidates should train themselves to think critically and avoid superficial responses.
- As sustainability reporting becomes more prominent, candidates must understand ESG concepts, emerging standards, and assurance procedures applicable to qualitative and estimate-based disclosures.
- Candidates are advised to allocate time wisely, ensuring that all sections of each question are attempted fully. Marks were frequently lost through incomplete answers.

Looking Ahead to Future Examinations

- Future examinations will continue to test not only knowledge but the ability to apply, analyse, and evaluate within realistic audit, governance, and sustainability contexts. Candidates who combine strong technical understanding with practical insight will perform better. Continuous reading of the syllabus and the learning material, current pronouncements, real audit reports and practice of past questions is strongly encouraged.
- Candidates are urged to prepare thoroughly, practice scenario-based questions, and cultivate the habit of explaining their points clearly and concisely.
- Candidates must ensure that their handwriting is legible.
- Candidates must read over their work before submitting the answer booklet

By addressing the identified weaknesses and adopting these recommendations, candidates will be better equipped to excel in upcoming examinations.