NOVEMBER 2025 PROFESSIONAL EXAMINATIONS
AUDIT & ASSURANCE (PAPER 2.3)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

The overall standard of the paper was commendable, comprehensively covering the entire syllabus. The questions were practical and aligned with the revised syllabus in terms of structure and weightings. The paper was well-balanced - neither overloaded nor ambiguous.

PERFORMANCE OF CANDIDATES

Candidates' performance was impressive. A pass rate of 83% was recorded, which was slightly below the 87% pass rate recorded in the July 2025 diet.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

Strengths

Several candidates demonstrated a strong understanding of key auditing concepts, including: elements of internal assurance engagement, key components of an internal audit report and audit procedures on payroll.

Additionally, many candidates provided clear and concise answers and applied theoretical knowledge effectively to practical scenarios

Weaknesses

Some candidates exhibited difficulty in applying theoretical concepts to real-world situations, limited understanding of ethical considerations before accepting an audit engagement as well as the concept of materiality and performance materiality.

The following shortcomings were also noted.

- Candidates could not provide the audit procedures for assessing going concern status.
- Candidates faced challenges in handling case study questions.
- Some candidates had poor handwriting, which made marking more time-consuming.

QUESTION ONE

a) An assurance engagement is a professional service provided by an independent practitioner, an Auditor or an Accountant, designed to enhance the degree of confidence placed on a subject matter by its intended users. The elements of an assurance engagement serve as a structure that ensures a practitioner can provide an adequate conclusion to enhance the confidence of intended users about the outcome of a measurement or evaluation against a set of criteria.

Required:
Discuss the **FIVE** elements of assurance engagement. **(10 marks)**

b) Your firm has recently completed the audit of Jasikan LTD. After extensive discussion with the company's management, a qualified opinion was issued as a result of firm's inability to agree with management on the appropriateness of a provision for obsolete stock.

The Managing Director has informed you that the company intends to change its auditors and engage the services of a small local firm of accountants. He informed you verbally that the reason for their decision is the disagreement over the provision for the obsolete stock.

Jasikan LTD is convinced that the new auditors are more likely to accept the accounting policies of management. You have received a letter from the new auditors enquiring if there are any professional reasons why they should not accept appointments as auditors of Jasikan LTD.

Required:

i) In view of the disagreement between your firm and Jasikan LTD, discuss **TWO** factors which the new auditors need to consider before accepting the appointment as auditors of Jasikan LTD. **(4 marks)**

ii) Explain **FOUR** ethical implications for the new auditors if they accept the appointment as auditors. **(6 marks)**

(Total: 20 marks)

QUESTION TWO

a) During the concluding phase of the audit of Droben PLC (Droben) for the year ended 30 June 2025, there was a media publication that one of the company's biggest investee companies has had its credit rating downgraded to default.

The news of this downgrade meant that Droben had to provide for additional impairment on its investments in this investee company, significantly reducing profit before tax, which was the benchmark used in setting materiality during the planning phase of the audit. No other significant changes in circumstances occurred that would alter the factors and related metrics that are most important to the users of the Droben's financial statements.

The audit team's re-evaluation of materiality indicated a decrease of materiality by 30% necessitating additional audit procedures to be performed due to the decrease in materiality.

The Chief Finance Officer was not amused by the news of additional audit procedures and insists the audit team concludes on the audit as there was no time and the company needed to publish its annual report the following week.

Droben is one of the largest audit clients in terms of audit fees and management has indicated their intention to discontinue with the audit firm should the company miss its reporting deadline.

Required:

i) Explain **TWO** ethical dilemmas the audit team faces. **(5 marks)**

ii) Recommend safeguards to address the ethical dilemmas in (i) above. **(5 marks)**

iii) Discuss the impact on the audit report if the audit team is unable to perform the additional audit procedures required. Include an example of the wording in the opinion section of the audit report. **(5 marks)**

b) An internal audit report is the primary means by which the internal audit function communicates its findings, conclusions and recommendations to management and those charged with governance. Its structure is important because it ensures clarity, consistency and completeness, enabling stakeholders to understand the issues identified, their implications and the actions required. A well-structured report enhances the impact of internal audit work and supports informed decision-making**.**

Required:

What are the key components of an internal audit report? **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) ***ISA 530: Audit Sampling*** indicates that the decision to use statistical sampling or non-statistical sampling is a matter of professional judgment and does not indicate which should be used in any given situation. However, the standard is clear that sample size is not a valid criterion to distinguish between the selection of sampling methods. Therefore, the auditor should not base their decision on whether to use statistical or non-statistical sampling on the outcome of the calculation of sample sizes.

Required:
Differentiate between ***statistical sampling*** and ***non-statistical sampling***. **(5 marks)**

b) A core objective of an audit is to enhance the degree of confidence intended users can place in the financial statements. This is achieved through the expression of an opinion and is governed by key conceptual pillars. Central to this process are the concepts of ***materiality*** and the level of ***assurance*** provided.

Required:
i) Explain the concept of ***materiality*** and ***performance materiality***. **(5 marks)**
ii) Compare and contrast ***limited assurance*** and ***reasonable assurance***. **(5 marks)**

c) Your client has outsourced their payroll processes to Adjara Technologies (Adjara), a payroll management company. You have asked the client how they are confident that the payroll that is processed is accurate and appropriate. They have indicated that Adjara sends them the final payroll run for review before payment is done. They also mentioned they performed due diligence on Adjara before contracting them and noted that they have other high-profile companies as clients and has a reputable audit firm as its Service Auditor who audits the payroll management service. Your client has shared with you the final approved payroll run for each month under review.

Required:
State **FIVE** audit procedures to be performed on the payroll. **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Below is a summary of the financial information of Afrimata LTD, an audit client.

	30 June 2025	30 June 2024
	GH¢'million	**GH¢'million**
Financial performance		
Revenue	231	506
Cost of sales	(235)	(352)
Selling, general and admin expenses	(48)	(52)
Income tax expense	(3)	(12)
Financial position		
Property, plant and equipment (PPE)	950	958
Inventory	39	42
Accounts receivable	94	111
Cash and cash equivalents	5	30
Borrowings	(830)	(830)
Accounts payable	(244)	(238)
Income tax payable	(17)	(21)
Share capital	(50)	(50)
Retained earnings	53	(2)

Additional information:

1) 60% of PPE relates to the assets used in the provision of works under a contract with Jinejine Industries LTD while the remaining 40% relates to assets required for the provision of works under a contract with Sampa LTD.
2) The Borrowings relate to a 3-year loan facility from Drobo Area Rural Bank LTD. The loan balance is due on 31 December 2025.
3) In arriving at the carrying amount of inventory, a provision of GH¢12 million was posted.
4) An expected credit loss of GH¢18 million is also included in accounts receivable.
5) The decline in the revenue for the year is mainly due to a retarding level of activity for Sampa LTD. In the previous year, this contract brought in revenue of approximately GH¢250 million.

Required:

i) Explain the auditor's responsibility with regards to going concern. **(2 marks)**

ii) Identify **FIVE** indicators of going concern challenges at Afrimata LTD. **(5 marks)**

iii) State **THREE** audit procedures you would perform in determining the going concern status of Afrimata LTD. **(3 marks)**

b) Patakoro Telecommunications LTD is an international telecom provider with operations in several African countries. You are the audit associate on the year-end audit for the financial year ended 31 March 2025.

One of the material revenue streams, international roaming charges (50% of total revenue), relies on a complex billing system. During the audit, inconsistencies were found in how revenue was recognised. The audit team planned additional substantive testing, including review of billing data, inter-operator agreements and cut-off testing. Materiality was determined using 5% of profit before tax.

Due to IT department delays and access restrictions, the team was unable to complete the planned audit procedures. Attempts to gather alternative evidence (bank receipts, usage data) were unsuccessful, as the data was incomplete. Management believes the revenue is fairly stated and insists that the audit should proceed.

Required:

i) Identify and explain the type of audit issue that has arisen. (**2 marks)**

ii) Evaluate whether the issue is material and/or pervasive. **(2 marks)**

iii) Recommend **TWO** additional actions or communications the auditor should undertake before finalising the audit report. **(3 marks)**

iv) Justify the appropriate type of audit opinion to be issued. **(3 marks)**

(Total: 20 marks)

QUESTION FIVE

a) You are reviewing the planning stage analytical procedures on the audit of Obotan Engineering and note the documentation below by the senior associate.

"The value of Property, Plant & Equipment (PPE) increased from GH¢735,000 at the end of 2023 to GH¢815,000 at the end of 2024 due to the purchase of a new caterpillar DT773 to replace the old caterpillar DT770 which was determined to be at the end of its useful economic life and could no longer be used. There are no other entries in PPE."

i) Explain **THREE** specific risks at the assertion level from the above. **(6 marks)**

ii) Recommend **TWO** audit procedures to address each of the risks identified in (i). **(4 marks)**

b) ***ISSAI 1705*** provides supplementary guidance on ***ISA 705 (Revised): Modifications to the Opinion in the Independent Auditor's Report*** for public sector auditors. ISA 705 deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

ISA 705 establishes three types of modified opinions: a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

i) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or inability to obtain sufficient appropriate audit evidence, and

ii) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Required:

Discuss **FIVE** additional factors public sector auditors consider before modifying their audit opinion in accordance with ***ISSAI 1705***.

(10 marks)

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a) Elements of assurance engagements

- **Three Parties Involved**
  The Practitioner: This is the individual or firm providing the assurance service. They are responsible for performing the engagement according to relevant standards and procedures.

  The Responsible Party: This is the individual or organisation responsible for the subject matter of the assurance engagement. For example, in a financial audit, the responsible party is usually the management of the organisation being audited.

  The Intended Users: These are the individuals or groups who rely on the assurance report to make informed decisions. They could be investors, regulators or other stakeholders.

- **Subject Matter**
  The subject matter is the information or data that is being evaluated in the assurance engagement. It could be financial statements, compliance with regulations or the effectiveness of internal controls. The subject matter must be identifiable and measurable so that the practitioner can perform a proper evaluation.

- **Suitable Criteria**
  Suitable criteria are the benchmarks or standards used to evaluate the subject matter. They provide a framework against which the subject matter is assessed. For example, in a financial audit, the criteria are generally the applicable accounting standards. The criteria must be suitable, relevant and agreed upon by the parties involved.

- **Evidence**
  Evidence refers to the information and data collected by the practitioner to support their findings and conclusions. It is obtained through various methods, such as testing, observation, and inquiry. The quality and quantity of evidence are crucial in forming a reasonable basis for the assurance report.

- **Assurance Report**
  This is the final output of the engagement, where the practitioner expresses their conclusion about the subject matter based on the evidence gathered. The report provides the assurance level, reasonable or limited that the information or processes being reviewed are free from material misstatement or in accordance with the criteria.

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

b)

i) **Factors to consider before accepting appointment:**

The new auditor should be aware of the attempted manipulation on the part of the management. If the new auditor feels that they will not be able to act within the IESBA Code of Ethics for Professional Accountants, they should not accept the appointment.

Integrity of Management

- ✓ The fact that the company is changing auditors immediately after receiving a *qualified audit opinion* raises serious questions about the **integrity and attitude of management toward fair financial reporting**.
- ✓ Management's stated reason — that they want auditors who are "more likely to accept" their accounting policies — suggests an attempt to find auditors who will be less rigorous or more compliant with their preferences.
- ✓ Before accepting, the new auditors must assess whether management is **honest, cooperative, and willing to provide all necessary information**. If management lacks integrity, the reliability of accounting records and representations becomes doubtful, increasing the audit risk.
- ✓ This can be done through inquiries with the outgoing auditors (your firm), reviewing prior financial statements, and evaluating management's response to audit recommendations.

Nature and Reason for the Disagreement / Implications for Audit Risk

- ✓ The new auditors must carefully evaluate the **nature of the disagreement** that led to the qualified opinion — in this case, the adequacy of the provision for obsolete stock.
- ✓ They should determine:
  - o Whether management's accounting treatment complies with the relevant accounting standards (e.g., IAS 2 *Inventories*).
  - o Whether the disagreement reflects a **fundamental difference in interpretation of accounting standards** or **management's refusal to make necessary adjustments**.
- ✓ If management's view is not supportable under accounting standards, the new auditors could face a similar conflict, leading to an increased risk of material misstatement and potential damage to their reputation if they accept the engagement without due diligence.
- ✓ The auditors should also consider whether there are any **other unresolved audit issues** or potential misstatements in other areas of the financial statements.

(2 valid points @ 2 marks each = 4 marks)

ii) **Ethical implications for New appointment:**

- The new auditor must be and be seen to be independent. In this particular case, care should be taken that the directors do not attempt to influence the audit opinion.
- The new auditor must communicate with the outgoing auditors before accepting the appointment. Permission will need to be sought from JK Limited before

marking such communication, and if permission is refused, new auditors cannot accept the appointment.

- The outgoing auditors may also need permission from JK Limited before they can share any matters that they feel should be brought to the attention of the new auditors before responding to any request for information. If permission is refused, the new auditors must carefully consider whether to accept the appointment.
- The new auditors should also ensure that they can cope with the client's size of the company, and it is the sort of clients that will 'fit' with their current portfolio.
- The auditors should ensure that the guidelines on fee income are observed. JK Limited should not represent more than 15 % of the practice fee income.
- Other ethical matters also need to be considered. For example, it should be ensured that there are no personal relationships between auditor and client that are restricted by the code.
- The auditor should ensure that they are in compliance with or is aware of the following ethical principles/threats against independence:
  (i) Integrity
  (ii) Objectivity
  (iii) Intimidation

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

(Total: 20 marks)

EXAMINER'S COMMENTS

Most candidates successfully discussed elements of assurance engagement and earned high marks. However, a few struggled with the case study component, particularly ethical implications for a new auditor accepting an engagement.

QUESTION TWO

a)

i) **Ethical dilemmas faced by the Audit Team**

Self-interest threat.

The audit team is faced with a self-interest threat. This is because the company is its biggest audit client in terms of audit fees. Losing the client may mean significant loss in revenue for the audit firm.

Intimidation threat

The intention of management to discontinue any future engagement with the audit firm presents intimidation threat as well. The auditor's independence may be compromised, as quite naturally, the auditor may not want to lose a high fee-paying client.

Threat to Professional Competence and Due Care

- **Nature of the dilemma:**
  The CFO is demanding that the auditors conclude the audit without performing the additional procedures required after the materiality revision.
- **Why it's a dilemma:**
  The audit team knows that failing to perform the required work would breach **ISA 320 (Materiality)** and **ISA 450 (Evaluation of Misstatements)**, but complying would delay reporting and risk losing the client.
- **Ethical principles affected:**
  - **Professional competence and due care** – Auditors must apply due diligence and comply with auditing standards.
  - **Integrity** – They must not issue an opinion without sufficient appropriate audit evidence.

(2 points well explained @ 2.5 marks each = 5 marks)

ii) **Recommended Safeguards to Address the Ethical Dilemmas**

Strengthen Firm-level and Engagement-level Quality Controls

- Consult with the Engagement Quality Control Reviewer (EQCR) or ethics partner for independent guidance.
- Involve senior partners to ensure the audit team's technical and ethical decisions are supported at firm level, reducing the risk of individual auditors bowing to client pressure.
- Ensure all audit work complies with ISQC 1/ISQM 1 (quality management standards).

Communicate Firmly and Transparently with Those Charged with Governance

- Communicate the impact of the investee company's downgrade and explain that auditing standards require a reassessment of materiality and additional procedures.
- Document management's resistance and communicate it to the Audit Committee or Board of Directors, emphasizing that the auditor's independence and opinion must comply with the law and professional standards.

Apply Safeguards Against Self-interest Threat

- If commercial dependence is significant, consider whether the client relationship creates a self-interest threat too large to manage.
- The firm may consider rotation of the engagement partner or, in extreme cases, withdrawal from the engagement if ethical standards cannot be maintained.

Maintain Professional Ethics and Documentation

- Remind the audit team of their duty under the Code of Ethics for Professional Accountants (IESBA / ICAG Code) to act with integrity, objectivity, and due care.
- Document all communications, judgments, and decisions regarding the re-evaluation of materiality and the need for extra work.

(2 points well explained @ 2.5 marks each = 5 marks)

iii) **Audit report impact**

The inability to perform additional audit procedures creates a scope limitation. Depending on how pervasive the missing evidence is, the audit team may need to issue one of the following:

- Qualified Opinion: If the team concludes that the inability to obtain sufficient appropriate evidence is material but not pervasive, they may issue a qualified opinion. Wording example, except for the possible effects of the matter described in the basis of qualified opinion, the financial statements present fairly, in all material respects, the financial position of Investment Africa Plc at 30 June 2025, and its financial performance and its cash flows for year then ended in accordance with applicable financial reporting framework.
- Disclaimer of Opinion. If the audit team concludes that the inability to obtain the additional evidence is material and pervasive, meaning the audit team cannot form an opinion at all, they must issue a disclaimer of opinion. Wording example, we do not express an opinion on the accompanying financial statements of Investment Africa Plc because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report.

(5 marks)

b) **Key components of an internal audit report**

Title Page

- Name of the organisation
- Name of the report (e.g., *Internal Audit Report on Procurement Processes*)
- Date of the report
- Name/position of the addressee

Executive Summary

- Brief overview of the audit's purpose, scope, and key findings
- High-level recommendations and conclusions

Introduction

- Background information about the area/process audited
- Audit objectives and scope
- Period covered by the audit
- Audit criteria/standards used

Methodology

- Approach and techniques used (e.g., interviews, document reviews, sampling)
- Description of the audit procedures performed

Findings

- Detailed observations (organised by theme, risk area, or process step)
- Evidence supporting each finding
- Risk rating or significance (e.g., High/Medium/Low)

Conclusions

- Summary assessment of the adequacy and effectiveness of controls
- Link to audit objectives

Recommendations

- Specific, actionable steps to address each finding
- Suggested timelines for implementation
- Responsible parties for action

Management Response

- Comments from management on the findings and recommendations
- Agreed actions and deadlines

Auditor's Signature and Date

- Name, designation, and signature of the internal auditor or head of internal audit
- Date of issue

Appendices (if needed)

- Detailed data, charts, process flow diagrams or supporting documents
- Audit checklist or work programme summary

(Any 5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Many candidates competently identified key components of an internal audit report. However, some struggled to apply the case study to determine the appropriate audit report when additional audit procedures could not be performed.

QUESTION THREE

a) **Difference between statistical and non-statistical sampling**

Statistical sampling is any sampling approach that involves random selection and applies probability theory to the evaluation of the sample results and the measurement of sampling risk.

Non-statistical sampling (also known as **judgemental sampling**) on the other hand, is any sampling technique not based on probability theory. Instead, it is based on a judgemental opinion by the auditor about the results of the sample.

(5 marks)

b)

i) **Materiality and Performance Materiality**

Materiality refers to the significance or importance of an item, transaction, or error in the financial statements. An item is considered material if its omission or misstatement can influence the economic decisions of users of the financial statements.

Materiality is a subjective concept and varies depending on the context. It involves the auditor's professional judgment and considers both quantitative and qualitative factors. Quantitative factors include the size of the misstatement, while qualitative factors encompass the nature of the item and its potential impact on users' decisions. Materiality is assessed for the financial statements as a whole and at the individual account balance or transaction level.

Performance materiality is a lower threshold of materiality that auditors use when designing and evaluating the results of audit procedures. It is set at a level lower than the overall materiality to ensure that the audit provides reasonable assurance that material misstatements will be detected.

Auditors use performance materiality as a tool to control the risk of failing to detect material misstatements. It allows for some level of error in audit procedures while still achieving the objective of the audit. Performance materiality is typically expressed as a percentage of overall materiality or as a specific amount.

(5 marks)

ii) **Limited assurance and reasonable assurance**

Basis of Comparison	**Limited Assurance Engagement**	**Reasonable Assurance Engagement**
Definition	An assurance engagement where the practitioner **reduces engagement risk** to an **acceptable level**, but **not as low as for a reasonable assurance** engagement.	An assurance engagement where the practitioner **reduces engagement risk** to a **low level**, sufficient to express a **positive form of conclusion**.
Level of Assurance	**Moderate (lower)** level of assurance.	**High (but not absolute)** level of assurance.
Nature of Procedures Performed	Mainly **inquiry and analytical procedures**; limited testing of underlying records.	**Detailed tests of controls, substantive testing**, and extensive audit evidence gathering.
Type of Conclusion/Opinion Expressed	**Negative (limited) form of conclusion** — e.g., *"Nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with…"*	**Positive (reasonable) form of opinion** — e.g., *"In our opinion, the financial statements present fairly, in all material respects, in accordance with…"*
Degree of Work and Evidence Required	Less extensive; less evidence gathered because assurance is moderate.	More extensive; sufficient appropriate audit evidence required to reduce audit risk to a low level.
Example of Engagements	Review engagements (e.g., review of interim financial statements under ISRE 2400).	Audits of financial statements under ISA 200 series.
Cost and Time Implication	Lower cost and time due to limited scope of work.	Higher cost and time due to comprehensive testing and procedures.
User Confidence	Provides moderate confidence to users (limited comfort).	Provides high confidence to users (greater comfort).
Applicable Standards	International Standard on Review Engagements (ISRE 2400/2410).	International Standards on Auditing (ISAs).

(Any 5 points for 5 marks)

c) **Audit procedures to be performed on the payroll**

- Obtain an understanding of the end to end payroll process, including the outsourced activities.
- Understand and evaluate the controls management has put in place to ensure payroll is not misstated.
- Obtain information on the nature of the services provided by Adjara Technologies.
- Understand the degree of interaction between the activities of Adjara Technologies and those of the client.
- Obtain the Service Auditor's Type 1 or Type 2 Report to our Understanding of the Adjara Technologies.
- Test the effectiveness of management's controls over the payroll process.
- Perform substantive analytical procedures on the monthly payroll.
- Inspect evidence supporting the payment of payroll.
- Recompute payroll expenses using audit sampling.

(5 points for 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Most candidates differentiated between statistical and non-statistical sampling and provided good responses on payroll audit procedures. However, some were unable to explain performance materiality and limited assurance.

QUESTION FOUR

a)

i) Going concern is an entity's ability to continue its operations for the foreseeable future.

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

(2 marks)

ii) **Indicators of going concern challenges at Afrimata LTD**

- At 30 June 2025, the company was in a net current liability position of GH¢942 million and was in a net liability position of GH¢3 million. This indicates liquidity challenges and an inability to settle its liabilities as they fall due.
- The company made a gross loss of GH¢4 million and net loss of GH¢55 million during the year ended 30 June 2025. This means the business is currently not operating profitably and if continued, may mean a worsening to their balance sheet.
- The company had negative operating cash flows for the year which, if continued may lead to inability to settle its debts.
- The company is highly geared with a debt to total capital ratio of 100.2%. This may indicate the business is unsustainable.
- The borrowing of GH¢830 million is due in 6 months and given the liquidity position, there may not be realistic prospects of renewal or repayment.
- The assets used in the provision of works under contract with Sampa LTD may be impaired given the decrease in the activity under that contract. This may especially be the case if the assets were tailor made for the provision of that service.

(5 points @ 1 mark each = 5 marks)

iii) Audit procedures to be performed in determining the going concern status of Afrimata LTD

- Analysing and discussing cash flow, profit and other relevant forecasts with management.
- Analysing and discussing the entity's latest available interim financial statements.
- Evaluating the entity's plans to settle the pending loan and creditor balances.
- Confirming with creditors and lenders and extensions in facilities that management purports.
- Determining the adequacy of support for any planned disposals of assets.
- Obtaining letters of support received by the company.

- Confirming the existence, legality and enforceability of arrangements to provide financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Comparing the prospective financial information for the current period with results achieved to date.
- Obtaining a written representation that management has disclosed to the auditor plans for future action and the feasibility of these plans when events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern.

(3 points @ 1 mark each = 3 marks)

b)

i) The audit team is facing a scope limitation due to inability to obtain sufficient appropriate audit evidence. Audit risk remains unresolved, particularly on a material revenue stream.

(2 marks)

ii) 50% of revenue is material considering materiality is set at 5% of PBIT. Inability to test recognition could result in a material misstatement of the financial statements. Though material, the issue is not pervasive (only one stream), unless there is evidence that it also affected other areas of the financial statements.

(2 marks)

iii) Recommended additional actions

- Communicate issue to management and those charged with governance.
- Consider whether report delay is possible and communicate that appropriately.
- Ensure proper documentation of the limitation and judgment applied.

(2 points @ 1.5 marks each = 3 marks)

iv) A qualified opinion is the most likely option because the issue is material but not pervasive. But if deemed pervasive (e.g. similar system issues elsewhere), then disclaimer is more appropriate.

(3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

A significant number of candidates identified going concern challenges in the case study, but some had difficulty outlining audit procedures for determining going concern status.

QUESTION FIVE

a)

i) **Risks at the assertion level**

- PPE may be impaired (the carrying value of DT770 may not be recoverable).
- Depreciation has not been provided for.
- Additions may be misstated or not properly recorded.

(3 points @ 2 marks each = 6 marks)

ii) **Audit procedures to address the risks**

PPE impairment

- Understand management's plan to recover the carrying value of DT770
- Obtain evidence supporting the fair value less costs to sell of DT770

Depreciation

- Make inquiries of management of why there is no depreciation charge for the year.
- Obtain and review the PPE register for unusual or unexpected items/ movements.
- Evaluate appropriateness of useful lives of PPE.
- Recompute depreciation and compare to depreciation charge for the year.

Additions

- Obtain evidence showing transfer of ownership of DT770.
- Obtain invoice/contract for purchase of DT770.

(4 marks)

b) **Additional factors for public sector auditors' consideration**

- The audit mandate, or obligations for public sector entities, arising from compliance to laws and regulations and pronouncements issued by Authorities including the MMDAs, Ministers, the Act setting up the MMDA itself, legislation, regulation, ministerial directives, government policy requirements or resolutions of the legislature which may result in additional objectives.
- Instances of management refusing to remove restrictions on access to audit evidence due to official secrecy regulations.
- Non-compliance with provisions of PFM Act, expenditure not in compliance with budgetary allocation and other financial malfeasance.
- There may be general public expectations in regard to public sector on reporting on the effectiveness of internal control.
- there may be general public expectations in regard to the public sector on reporting on value for money (economic, efficiency and effectiveness of expenditure).

(5 points @ 2 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Many candidates performed poorly on this question, revealing weaknesses in understanding modifications to audit opinions in accordance with **ISSAI 1705**.

CONCLUSION AND RECOMMENDATIONS

Tuition providers played a vital role in candidate success and deserve commendation.

Going forward, providers should:

- Address the identified weaknesses.
- Reinforce understanding of audit assertions and procedures.
- Incorporate more case-based assignments aligned with the revised syllabus.
- Increase the frequency of mock exams and use sample questions to improve readiness.

Candidates are encouraged to utilize updated study texts and practice materials to enhance future performance.