

*The Institute of Chartered Accountants [Ghana]*



**MAY 2005  
EXAMINATIONS  
(PROFESSIONAL)**

**Part 3**

**ASSURANCE AND AUDIT PRACTICE  
(Paper 3.2)**

**Attempt *all* five(5) Questions**

**Time Allowed: 3 Hrs.**

## QUESTION 1

You have been assigned as the Audit Manager to audit Konkontiba Company Limited for the year ended 31 December, 2004. The company is a key distributor of alcoholic beverages and soft drinks. The Accountant of the company has informed you that the company has installed a new computer system with effect from the 1<sup>st</sup> July, 2004. Your preliminary evaluation as part of the system development audit revealed that you can now place reliance on internal controls over purchases, wages and salesmen's expenses which hitherto you were unable to do.

### Required:

- a. Draft a planning memorandum setting out your approach to the audit for the year ended 31/12/2004.  
(10 marks)
  - b. Detail the statutory factors you will take into account in drafting an unqualified audit report for the consideration of the partner. (Your answer should respond to the requirements of the Companies Code, 1963, Act 179).  
(10 marks)
- (Total: 20 marks)**

## QUESTION 2

ABJ Company Limited, is an established company operating in diverse areas of business. You are auditing the accounts of the company for the year ended 31 December, 2004. You decided to use various auditing procedures to obtain the necessary audit evidence to enable you form the right opinion on the financial statements.

### Required:

- a. Specify tests you would perform to audit legal contingent liabilities.  
(5 marks)
  - b. State tests relevant to the audit of assets disposed of during the year under review.  
(7 marks)
  - c. Detail the factors which determine the auditor's use of analytical procedures as substantive procedures during the course of an audit.  
(8 marks)
- (Total: 20 marks)**

### QUESTION 3

Your client, Anything Goes Limited deals in manual office equipment, such as typewriter, duplicating machine and filing cabinets. At the beginning of the year 2005, the directors of the company decided to add computer hardware, software and accessories to the company's product lines.

In line with this decision the management further decided to computerize the accounting records.

You have been invited, as would be expected, to review the system development before the system becomes fully operational.

#### Required:

- a. To state what factors will increase risk of misstatements in financial statements.  
(5 marks)
  - b. To detail the audit procedures you will carry out to audit the development of a new computerized accounting system of a client.  
(15 marks)
- (Total: 20 marks)**

### QUESTION 4

During the audit of the accounts of your client, Ananse Spining Company Limited, you were made aware of serious disagreements among the audit staff with respect to professional technical matters. One of such disagreements relates to the distinction between "an adverse opinion" and "a disclaimer of opinion" and the circumstances giving rise to such opinions.

#### Required:

- a. To describe the circumstances, with appropriate examples, which may cause the auditor to issue:
    - i. 'an adverse opinion'
    - ii. 'a disclaimer of opinion'.(10 marks)
  - b. To detail the quality control procedures needed to enhance competence of audit personnel to resolve technical disagreements.  
(10 marks)
- (Total: 20 marks)**

## QUESTION 5

Progressive Company Limited directors are planning to expand the operations of the company. The expansion programme has two components; replacement of production equipment immediately and building a new plant which will enable the company to increase sales volume by 20% over a period of five years.

During the audit of the accounts for the 2004 financial year the directors agreed with you to provide them with reports on a forecast and a projection prepared for presentation to their bankers for short term and long term loans to finance the two phases of the expansion programme.

### Required:

- a. What are the possible audit opinions that can be issued by auditors on account of “going concern” applicability. (5 marks)
- b. Distinguish between a “forecast” and a “projection”. (5 marks)
- c. Present appropriate auditor’s report on:
  - i. a forecast
  - ii. a projection.

(10 marks)

**(Total: 20 marks)**