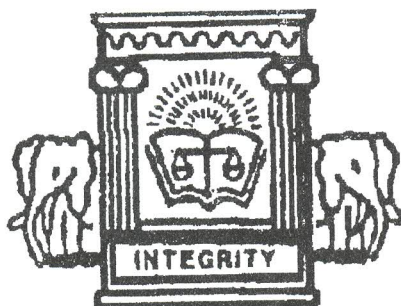


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2006 EXAMINATIONS
(PROFESSIONAL)**

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Your auditing firm is in the process of planning the audit of its client, Creative and Dynamic Limited, manufacturers of fashion goods for the year ended 31st December 2005. You have been tasked to take charge of the planning of the audit.

Required:

- (a) Assess the possible higher than normal audit risk in relation to management characteristics. (5 marks)
- (b) Enumerate and explain strategies for controlling and monitoring audit time and cost. (10 marks)
- (c) State five factors, which should be considered when planning the audit of Listed Companies. (5 marks)

(Total: 20 marks)

QUESTION 2

You are the Audit Manager of Timtimpo & Associates. You are nearing the completion of an audit of the financial statements of DD Ognernsy Limited for the year ended 31st December 2005.

You are currently concerned with ascertaining the occurrence of subsequent events that may require adjustment disclosure essential to a fair presentation in conformity with the Ghana Accounting Standards.

Required:

- (a) Briefly explain what is meant by the phrase "Post Balance Sheet Events".
- (b) How do those post balance sheet events that require financial statement adjustment differ from those that require financial statement disclosure?
- (c) What procedures should be performed in order to ascertain the occurrence of post balance sheet date events?

(Total: 20 marks)

QUESTION 3

- (a) There are circumstances in which the auditor should qualify his opinion when reporting on the financial statements and other circumstances in which he should disclaim an opinion on the financial statements.

Required:

Explain the general nature of the circumstances that would make each opinion necessary. (8 marks)

- (b) What would be the effect of the following conditions on the auditor's report?
- (i) Accounts receivable are significant in amount. The client refused to permit their confirmation by direct correspondence and no other satisfactory means of establishing the substantial correctness of the total were available.
 - (ii) The client refused to permit the auditor to examine the minutes of Board of Directors' meetings. (7 marks)
- (c) List and explain five (5) principles in professional ethics. (5 marks)

(Total: 20 marks)

QUESTION 4

In recent times certain Audit clients are putting their audits to tender and Accounting Firms must therefore tender for audit work. The competitive nature of the teaching process requires auditors to improve their quality control procedures and to generally give value for many service clients. They must also be aware of the increasing liabilities that face accountants as a result of litigation for claim of damages or criminal prosecution for defaults.

Required:

- (a) State the factors you will consider before tendering for audit work. (10 marks)
- (b) Describe the matters you will take into consideration when reviewing the financial statements to ensure that they give a true and fair view. (10 marks)

(Total: 20 marks)

QUESTION 5

- (a) Adasa Company Limited, a client of your firm, has two local subsidiaries and one foreign subsidiary. The Group of Companies has prepared their consolidated financial statements for the year ended 31st December 2005. You are the head of a team of staff to carry out the audit of the Group Accounts.

Required:

List the work that your team would be expected to do on the audit of the consolidated financial statements. (10 marks)

- (b) You have been approached, as an Accountant, by a prospective investor who is interested in acquiring Adzepa Limited, a private limited liability company.

The unaudited financial statements of the company for the year 2005 have been presented to you to examine and offer advice on the proposed acquisition.

Required:

What matters would require investigation to enable you establish the reliability of the accounts? (10 marks)

(Total: 20 marks)