

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



NOVEMBER 2006 EXAMINATIONS
(PROFESSIONAL)

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Your firm, Tight-Up & Co., has audited the financial statements of Tomorrow Unknown Ltd., a detergent manufacturing company, for the year ended 31 December, 2005. From the audit work the following matters came to light.

- (i) The company incurred a loss of €500 million for the year.
- (ii) At the date of the Balance Sheet, the company was overtrading (that is its current liabilities were more than its current assets)
- (iii) The directors were negotiating for a long-term facility to replace the bank overdraft of €100 million which is repayable on 30th September 2006.

You are of the view that these matters indicate that the company may be unable to continue operations into the foreseeable future. In fact, the going concern of the company is in doubt.

Required:

- (a) What procedures would you carry out to confirm the applicability of going concern?

(5 Marks)

- (b) In your opinion the going concern basis is not applicable to Tomorrow Unknown Ltd., therefore draft a suitable audit report to the members.

(10 Marks)

- (c) In a computerized environment, the main object of Accounting Record Controls is to ensure that files are maintained correctly and protected from erroneous or deliberate corruption or unauthorized alterations.

Required:

What common Accounting Record Controls would you advise your client to maintain?

(5 Marks)

(Total 20 Marks)

QUESTION 2

(a)

An auditor is required to carry out sufficient analytical review of financial statements in conjunction with conclusions drawn from other audit evidence obtained.

Your audit manger has requested you as the audit senior to brief your team members on the overall review an auditor will perform in order to enable him form an opinion on the financial statement.

Required:

What analytical procedures and inquiries will an auditor consider in his review?

(14 Marks)

(b)

An auditor is primarily concerned with the balance sheet as at a particular date and related statements of earning, surpluses and cash flows for a particular period. The audit does not stop with the Balance Sheet date. Events after the Balance Sheet date must be considered.

The Chief Executive of Dadekotopon Ltd. had called on your Auditing Firm to explain in detail the types of post balance sheet events and the steps your firm will take to ensure that these events are properly stated in the financial statements.

Required:

Explain briefly the different types of Post Balance Sheet Events and how they are reflected in the Financial Statements.

(6 Marks)

(Total 20 Marks)

QUESTION 3

(a)

Your firm has audited the accounts of Easy-Go Ltd. for the year ended 31st December, 2005. In the course of the audit, the following weaknesses were noted in the internal control and accounting systems and discussed with management:

- (i) Unnumbered stock sheets were issued by the financial controller and were returned to him after completing them.
- (ii) Two motor vehicles had been scrapped but no records of the scrappings had been made in the accounting records.
- (iii) The company has been giving loans to the employees to buy their own cars. The loans are given without the approval of the board. Loans to two employees are included in debtors but they have resigned and left the company. Each of them has ceased to make payments on leaving the company.

Required:

Write a letter of weakness to the directors of Easy-Go Ltd. dealing with each of the matters stated above, indicating your recommendations as to the improvements which you consider they should adopt.

(10 Marks)

(b)

“An audit planning memorandum reduces to writing the formal plan of each audit.”

Required:

You are to set out what you consider should be included in the audit planning memorandum.

(5 Marks)

(c)

It is of primary importance to the auditing profession that an audit should be a quality product.

Required:

What quality control procedures should be applied to individual audits?

(5 Marks)

(Total 20 Marks)

QUESTION 4

(a)

Mogyabiyedom Company Ltd. is listed on the stock market.

The Company Secretary seeks your advice as the Partner's Assistant of your firm of Chartered Accountants, on how to compile the responsibilities for the Board Sub-Committee on Audit.

Required:

List and briefly explain five responsibilities of the Audit Committee.

(8 Marks)

(b)

The Directors of Adade Co. Ltd., a private limited Liability Company, wish to list the company on the Ghana Stock Exchange. In this regard they have indicated their intention to engage you as a Reporting Accountant.

Required:

Detail out the procedures you would undertake or follow as the Reporting Accountant to the listing.

(12 Marks)

(Total 20 Marks)

QUESTION 5

(a)

You are the audit senior of your firm and are reviewing the audit working papers of your client for the purpose of issuing a draft report. From the Management representation Letter, you noted that there is a major legal suit pending on the company's Leasehold Property valued at ₵2.8 billion. However, no provision for the legal cost nor a note has been made of this fact in the financial statements. You consider this circumstance as an inherent uncertainty and that the fact is fundamental to the proper understanding of the financial statements.

Required:

Draft an appropriate audit report based on your findings.

(10 Marks)

(b)

An argument has ensued between two directors of your client company over the duties and powers of an Internal Auditor and an External Auditor. One of them has made reference to the Ghana Companies Code 1963, Act 179, for the duties and powers of External auditors.

Required:

You are to articulate, in outline only, the duties and powers of an auditor according to the provisions of the Ghana Companies Code 1963, Act 179.

(10 Marks)

(Total 20 Marks)