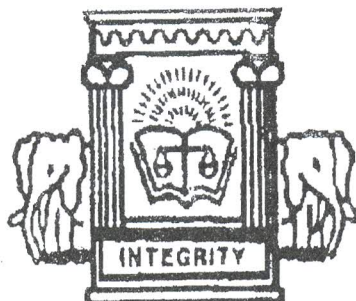


**THE INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**MAY 2010 EXAMINATIONS
(PROFESSIONAL)**

PART 2

**AUDIT AND INTERNAL REVIEW
(Paper 2.2)**

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Working	-	3 Hours

QUESTION 1

Abrabopa Limited was incorporated in Ghana on 1 January 2009 to assemble computers. The directors of the company are unsure as to their responsibilities and the nature of their relationship with the external auditors. The audit partner has asked you to visit the client and explain to the directors the more fundamental aspects of their accountability.

Required:

Explain to the directors of Abrabopa:

- a) Why there is the need to have the financial statements of the entity audited. *(6 marks)*
 - b) How the auditor of a public company may be appointed under the Companies Code (under review). *(4 marks)*
 - c) What the auditor's rights are under the Companies Code (under review). *(6 marks)*
 - d) The responsibilities of the directors in relation to the accounting function of the company. *(4 marks)*
- (Total: 20 marks)**

QUESTION 2

You are the audit senior responsible for understanding the entity and its environment and assessing the risk of material misstatements for the audit of Kawokudi Ltd for the year ended 31 December 2009. Kawokudi is engaged in the importation and distribution of a variety of personal products using many wholesale and retail outlets throughout Ghana. You have worked on the audit of this client for many years as an audit junior.

Required:

- a) Describe the information you will seek, and procedures you will perform in order to understand the entity and its environment and assess risk for the audit of Kawokudi for the year ended 31 December 2009. *(10 marks)*
- b) You are nearing completion of the audit of Kawokudi for the year ended 31 December 2009. Draft financial statements have been produced. You have been given the responsibility of performing a review of the audit files before they are passed to the audit manager for review. You have been asked to concentrate on the proper completion of the audit working papers. Some of the working papers have been produced electronically but all of them have been printed out to you.

Describe the types of audit working papers you should expect to see in the audit files and the features of those working papers that show that they have been properly completed.

(10 marks)

(Total: 20 marks)

QUESTION 3

While making arrangements to start the final audit work of Som Nyame Ltd, the financial accountant of the company informs you that the company has acquired a new accounting software to process transactions and to prepare financial statements. According to the accountant, the sales engineer of the software developer had run a demonstration which seemed to show that the introduction of the computerised accounting system would cause very few problems. However while you are carrying out the final audit tests, you are informed that the computerised accounting data cannot be accessed. You further discover that the data disks have been corrupted, either because of a malfunction in the software or because of a user error.

Required:

- a) Describe the audit implications of the introduction of the computerised accounting system in the period between the interim audit visit and the year-end date.
(6 marks)
- b) Describe the controls which the company should have installed in order to ensure that this corruption of the data files did not cause a major accounting breakdown.
(8 marks)
- c) Describe the audit implications in the year that the corruption of data files has taken place, assuming that the company has not maintained adequate safeguards over computer generated data.
(6 marks)

(Total: 20 marks)

QUESTION 4

- a) An audit client, Prosperity Company, has presented a number of long and short term payables, accruals and provisions in its statement of financial position as at 31 December 2009.

Required:

Describe the audit procedures you would apply on each of the three items listed below, including those relating to disclosure.

- i) A five – year bank loan (with a variable interest rate) and an overdraft (a current account with a debit balance), both from the same bank. (6 marks)
- ii) Expense accruals (4 marks)
- iii) Trade payables (5 marks)
- b) The client has a provision in its statement of financial position for claims made by the customers for product defects under one year company warranties.

Required:

Describe the matters you would consider and the audit evidence you would require for the provision.

(5 marks)

(Total: 20 marks)

QUESTION 5

The content of auditor's report to members has been revised by ISA 700 '*The Independent Auditor's Report on a Complete Set of General Purpose Financial Statement*' and ISA 701 '*Modification to the Independent Auditor's Report*'.

- a) List the **ten (10)** main elements of the independent auditor's report on a complete set of general purpose financial statement. (5 marks)
- b) Explain and distinguish between the following forms of modified audit report:
- i) Qualified
- ii) Disclaimer

iii) Adverse opinion .

(6 marks)

- c) In October 2009, the head office of your audit client, Diverse Supermarket, was damaged by fire. Many of the company's accounting records were destroyed before the audit for the year ended 31 December 2009 took place. The company's financial accountant has prepared the financial statements for the year ended 31 December 2009 on the basis of estimates and the information he has been able to salvage. You have completed the audit of these financial statements.

Required:

Explain how your audit report would be affected by the fire at the head office of Diverse. Give reasons for your audit opinion.

(9 marks)

(Total: 20 marks)