

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



**MAY 2009 EXAMINATIONS
(PROFESSIONAL)**

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

- (a) The Institute of chartered Accountants (Ghana) (ICAG) has been working hard to ensure quality control at all levels of the Accountancy Profession in Ghana.

Recently, at a meeting to encourage 'Peer Reviews' among Practising Firms, Mr. Christlove a partner in an International Chartered Accounting Firm that practises strict quality control procedures argued that the Institute (ICAG) should leave small auditing firms out of the peer review exercise.

The smaller audit firms should be brought on board only when ICAG has put in adequate measures to ensure that smaller auditing firms comply with implementation of quality control procedures.

Required:

- (i) Briefly explain the concept of Peer review and state its objectives. **(3 marks)**
- (ii) State and explain why Mr. Christlove suggests that quality control may be difficult to implement in small auditing firms and state how such difficulty may be overcome. **(7 marks)**
- (b) Ghana National Company Ltd, established in 2004 to produce Chocolate in competition with existing companies, has been experiencing difficulties in its working capital.

The Chief Executive has therefore tasked the General Manager, Finance, to prepare financial plan for profit and cash forecast and the underlying assumptions and accounting policies for the purpose of acquiring a bank overdraft facility to improve business operation.

The Chief Executive has submitted the financial plan to K. N. & Addo Chartered Accountants for review.

The Senior Partner of the firm has detailed you as the Audit Senior to review the forecast.

Required:

Describe the matters you will consider and the procedures you would perform in reviewing the profit and cash flow forecast.

(10 marks)

- (c) Audit Committees provide an invaluable independent liaison between the board and the auditors thus strengthening the auditors' position and improving their work.

You are the Audit Manager of A. A. & Associates Chartered Accountants responsible for Excellent Private Pension Plan Ltd (EPPPL). The Chief Executive has expressed concern that the presence of the Audit Committee in EPPPL may slow down the work of A. A. & Associates, the company's External auditors.

Required:

Explain **five (5)** ways by which an audit committee could improve upon the effectiveness of the external auditors' work.

(5 marks)

Total: 25 marks

QUESTION 2

- (a) Christisgreat Company Ltd are manufacturers of industrial oil made from fresh Palm Kennel. The oil is widely sought after for production of margarine, ice cream, baby oil and many others.

Christisgreat recently published its financial statements audited by Amasa Mensah & Co. Chartered Accountants.

The auditors stated that the Financial Statements in all respects show a true and fair view of the company's state of affairs.

Two weeks after the publication Amasa Mensah & Co. Chartered Accountants, the company's auditors, received several letters from potential investors who were considering investment in Christisgreat Company Ltd. Their letters indicated that they have not commissioned an independent report relating to the financial position of Christisgreat and will place reliance upon the audited Financial Statements of the company when making a decision as to whether or not to proceed with an investment in the company.

The Managing Partner of Amasa Mensah & Co. Chartered Accountants has charged you as the Audit Manager to reply to the enquiries from the investors.

Required:

State and explain **five (5)** important issues to be pointed out in the reply to the investors.

(10 marks)

- (b) The Managing Partner of Quanmbo and Associates Chartered Accountants has tasked you as the audit Manager to lead a training session of all audit assistants in the firm. "The Audit Process" is one of the topics under consideration during the training session.

Required:

Discuss **five (5)** factors to be considered in determining the degree of reliance on internal controls in the conduct of an audit which the audit assistance should be familiar with before carrying out the assignment.

(10 marks)

Total: 20 marks

QUESTION 3

Mr. Ayi Quaye is the Chief Executive Officer of Odeneho Ghana Limited, a very large insurance company.

He has written to the company's (Odeneho Ghana Ltd) auditors, a firm of Practising Accountants who are also engaged in consulting activities, to assist him to deal with corporate computer fraud of which he is gravely concerned. You are an Audit Manager in the firm of Accountants also engaged in consulting activities and the Managing Partner has detailed you to assist Mr. Ayi Quaye.

Required:

- (a) List and explain briefly **seven (7)** ways by which Mr. Ayi Quaye will deal with computer fraud in the company.

(7 marks)

- (b) Mr. Ayi Quaye has tasked the company's capable IT department to develop an in-house system to manager one of the company's business units.

Briefly outline **five (5)** main control procedures over an in-house system development that Mr. Ayi Quaye should be concerned with.

(5 marks)

- (c) Briefly explain e-commerce and mention **four (4)** risk factors associated with it to Mr. Ayi Quaye.

(3 marks)

Total: 15 marks

QUESTION 4

Odomfo Ghana Steel Ltd is a large steel manufacturing company which was embroiled in quite a number of internal and external legal suits in the year 2007 pending at the commercial court. One of its vibrant factories located in Ashaiman near the free zone enclave was closed down after worker's persistent failure to heed to management's call to report back to work.

The workers went on strike as a result of management's inability to accept their request for payment of 30% increase in salaries.

The company does not intend to re-open the closed down factory. The Ashaiman factory is located on a lease hold land.

The Finance Director has presented the company's financial statements for year 2006 to its auditors, Helpline & Associates Chartered Accountants, where you are the Audit Manager in charge of Odomfo Ghana Steel Ltd audit. At a maiden meeting with the Finance Director and the Chief Executive Officer, they intimated that the company has some pending legal suits which are likely to result in the company paying substantial amounts to complainants.

Required:

- (a) Brief the assigned team of auditors suggesting **five (5)** procedures that the team should apply in verifying the existence and treatment of contingencies as part of their post balance sheet events review. **(5 marks)**
- (b) Identify the items that should be included in any provision for closure costs to be made in the Financial Statements of Odomfo Ghana Steel Ltd. **(10 marks)**
- (c) State and explain the general rules governing investigations and special engagements. **(5 marks)**

Total: 20 marks

QUESTION 5

- (a) Mr. Nyornmorhi is a newly appointed Chief Executive of Lovesweet Company Ltd barely three months to the end of the company's financial year.

He has read an accounting book which mentions directors and auditors responsibility in preparation of the financial statements but does not understand what this means.

Required:

- (i) Briefly explain the responsibilities of directors and auditors in respect of a company's financial statements **(6 marks)**
- (b) Mr. Nyornmorhi has requested you to brief him as to how practicing firms of auditors form their opinion on financial statements.

Required:

State the principal matters which an auditor would consider in forming an opinion on financial statements.

(5 marks)

- (c) The Company's Code 1963 Act 179 requires that in carrying out an audit, the auditor should consider and report by way of confirmation certain legal requirements enshrined in the code.

Mr. Nyornmorhi wants to appreciate what constitutes these legal requirements especially when unqualified audit report is issued.

Required:

Briefly explain **five (5)** legal requirements that would be confirmed by the auditor in an unqualified audit report.

(5 marks)

- (d) State **two (2)** reasons why an auditor may be uncertain as to whether a financial statement gives a true and fair view of state of affairs.

(4 marks)

Total: 20 marks