

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



**NOVEMBER 2009 EXAMINATIONS
(PROFESSIONAL)**

PART 3

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

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

- a) The auditing standard and guidelines states that the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements whether caused by error or fraud.

The Managing Partner of Goodwill & Co Chartered Accountants has requested you, the audit senior, to brief an audit team scheduled to conduct an investigation of the accounting records of one of your client companies where fraud has been detected.

Required to:

State and explain the auditor's responsibilities in relation to detection of fraud.

(7 marks)

- b) Labony Company Ltd is a client of Goodwill and Co-Chartered Accountants and has a large number of bank accounts.

Fraud has been alleged and suspected in some of the bank accounts and the Managing Partner has tasked you and your audit team to unravel the suspected fraud.

Required to:

Describe the audit procedures and tests the auditors should undertake on the bank reconciliation statements to confirm or dispel the suspicion.

(9 marks)

- c) The Managing Director of Nuanko Company Mr. Fred Yoyoh has intimated to you, the audit senior of Nsuyeh & Co Chartered Accountants, that he entertains some fears in instituting an Audit Committee.

He thinks an Audit Committee will add to management cost and therefore increase overall administrative cost.

Required:

Outline the roles of an Audit Committee (to allay the fears of Mr. Yoyoh).

(4 marks)

(Total: 20 marks)

QUESTION 2

- a) At a meeting to discuss the draft accounts with senior management of Good Plan Pension Company, the external auditors, Gelian and Co. Chartered Accountants asked management to confirm the amount of contingent liability of GH¢65m in respect of pending legal suit against the company.

The Chief Executive quizzed the General Manager, Finance to explain how the amount of GH¢65m was arrived at.

The General Manager, Finance explained the detail of the GH¢65m except for GH¢15m involved in a legal suit which has been determined in favour of Good Plan Pension Company. Therefore that amount has been deleted. The General Manager, Finance explained that the GH¢15m provided for would no longer be required in the notes to the financial statements.

Required:

- (i) Describe briefly what a contingent liability is. **(3 marks)**
- (ii) State and explain the audit procedures for the verification of contingent liability. **(7 marks)**
- b) Mr. Ananse Kwaku, as the Managing Partner of Worldweb & Co. Chartered Accountants, has been given the current (Audit) working paper file of Worldtravel Airline Company audit in his office. In leafing through the file he queried that there was no documentation on analytical procedures applied in forming an overall conclusion as to whether the financial statements as a whole are consistent and reasonable.

You are the audit manager of Worldweb & Co. and tried to assure Mr. Ananse that all the usual and relevant ratios that need to be considered are on file. Besides you have examined other ratios such as sales per passenger per mile among others. You have also examined important related accounts such as Sales/Revenue and Expenses Accounts as related to Balance Sheet items and the necessary comparisons have been made to ensure reasonability.

Required:

Describe other areas that might be investigated as part of the analytical procedures besides the work that the audit team has already done.

(10 marks)

(Total: 20 marks)

QUESTION 3

- a) You are the Audit Senior of Sohwenyeden & Co. Chartered Accountants in charge of Information Systems Audit. The Senior Partner of the firm has charged you to brief two newly recruited audit officers for the Information Systems Unit what Information System Audit is all about.

Required:

- (i) Briefly explain the purposes and benefits of Information Systems audit. **(4 marks)**
- (ii) State the general controls and application controls that should be considered when planning an Information System Audit. **(6 marks)**
- b) The managing Partner of Adumoa Manso & Co. Chartered Accountants has requested you as the audit manager to make a presentation on quality control to enhance the skills and competence of the audit staff. He also requested to see the details of the write-up for the presentation before the training session.

Required:

List and explain the purposes and principles of quality control that should be considered in a firm's training programme to ensure quality assurance.

(10 marks)

(Total: 20 marks)

QUESTION 4

- a) The Board of Directors of a client company is contemplating replacing the external auditors of their subsidiary company with a newly formed firm of Chartered Accountants. The Senior Partner of this new firm is a relation of the Board Chairman who has just returned from the United Kingdom.

One of the directors has asked you to advise him on this issue.

Required:

As part of your advice to the Director, identify and assess situations which will affect the auditor's independence.

(6 marks)

- b) Freelance Co. Ltd. has been in operation for several years. For the past five years, no tax assessment has been received from the Internal Revenue Service. The accountant of the company has only paid tax on account.

You have been engaged to conduct investigation into the company's corporate tax situation.

Required:

Outline **eight (8)** procedures that you would use to conduct the tax investigation.

(8 marks)

- c) Your firm Sandy & Co. has audited the financial statements of Zebilla Ltd., a textile company for the year ended June 2007. The Directors' meeting to approve the accounts is scheduled to be held on 30th October 2007.

Required:

List six main issues that would be covered by a review of post balance sheet events.

(6 marks)

(Total: 20 marks)

QUESTION 5

An auditor should apply analytical procedures at the planning and overall review stages of audit. Your audit manager has asked you to explain the nature and purposes of analytical procedures to your team.

Required:

- a) Explain the nature and purpose of analytical procedures.

(11 marks)

- b) Outline **four (4)** factors you will consider when planning to apply analytical procedures as substantial procedures in an audit.

(4 marks)

- c) Your firm, Thomas & Co. is the principal auditor of Asempa Resources Ltd, a mining company. John & Co. are the auditors of Asempa Resource Ltd's subsidiary, Flow-up maintenance Ltd.

Your audit manager has asked you to brief your team on issues to consider before relying on the work of John & Co.

Required:

Outline **five (5)** issues you will consider before relying on the work of John & Co.

(5 marks)

(Total: 20 marks)