

**INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2010 EXAMINATIONS
(PROFESSIONAL)**

PART 4

**ADVANCED AUDIT AND PROFESSIONAL ETHICS
(Paper 4.2)**

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Working	-	3 Hours

QUESTION 1

You are an audit manager in Eghan & Co, a firm of Chartered Accountants. One of your audit clients, Dawuro Ltd, provides satellite broadcasting services in Ghana. In February 2009, Dawuro Ltd purchased Boafo Ltd, a competitor company. Significant revenue and capital expenditure synergies are expected as the operations of Dawuro Ltd and Boafo Ltd are being combined into one group of companies.

Dawuro Ltd Group:

Year ended 31 December	2009 (Estimated) GHSm	2008 (Actual) GHSm
Revenue	13,000	9,000
Cost of sales	(6,000)	(4,000)
Distribution costs and administrative expenses	(5,600)	(3,800)
Research and development costs	(60)	(50)
Depreciation and amortisation	(1,800)	(1,300)
Interest expense	<u>(500)</u>	<u>(400)</u>
Loss before taxation	<u>(960)</u>	<u>(550)</u>
Customers (Credit)	12.0	8.2

In November 2009, Dawuro Ltd purchased Ahoma Ltd, a large cable communications provider in Liberia, where your firm (Eghan & Co Chartered Accountants) has no representation. The financial statements of Ahoma Ltd for the year ending 31 December 2009 will continue to be audited by a local firm of Chartered Accountants. Ahoma's activities have not been reflected in the above estimated results of the group. Dawuro Ltd is committed to introducing its corporate image into Liberia.

In order to sustain growth, significant costs are expected to be incurred as operations are expanded, networks upgraded and new products and service introduced.

Required:

- Identify and describe **four (4)** principal business risks for the Dawuro Ltd group. **(6 marks)**
- Explain what effect the acquisitions will have on the planning of Eghan & Co's audit of the consolidated financial statements of Dawuro Ltd Group for the year ending 31 December 2009. **(10 marks)**
- Explain the role of 'support letters' (also called 'comfort letters') as evidence in the audit of consolidated financial statements. **(4 marks)**

(Total: 20 marks)

QUESTION 2

- (a) Comment on the need for ethical guidance for accountants on money laundering. (5 marks)
- (b) You are the senior manager in Atwee & Co, a firm of Chartered Accountants. Recently, you have been assigned specific responsibility for undertaking annual reviews of existing clients. The following situations have arisen in connection with three clients.

Required:

Identify and comment on the ethical and other professional issues raised by each of these matters and state what action, if any, Atwee & Co should now take.

Note: the mark allocation is shown against each of the situations.

- (i) Atwee & Co was appointed auditor and tax advisor to Edinaman Ltd last year and has recently issued an unmodified opinion on the financial statements for the year ended 31 December 2009. To your surprise, the tax authority has just launched an investigation into the affairs of Edinaman Ltd on suspicion of under-declaring income. (7 marks)
- (ii) The Chief Executive of Ahafoman Ltd, an exporter of specialist equipment, has asked for advice on the accounting treatment and disclosure of payments being made for security consultancy services. The payments, which aim to ensure that consignments are not impounded in the destination country of a major customer, may be material to the financial statements for the year ending 31 December 2009. Ahafoman does not treat these payments as tax deductible. (4 marks)
- (iii) Your firm has provided financial advice to the Oyoko family for many years and this has sometimes involved your firm in carrying out transactions on their behalf. The eldest son of the family head, Kofi Ahenkan, is to take up a position as a senior government official to a foreign country next month. (4 marks)

(Total: 20 marks)

QUESTION 3

(a) Define the following terms:

- (i) Forensic Accounting;
- (ii) Forensic Investigations;
- (iii) Forensic Auditing.

(6 marks)

(b) Assess how the **five (5)** fundamental ethical principles of IFAC's *Code of Ethics for Professional Accountants* should be applied to the provision of a forensic investigation service.

(6 marks)

(c) You are the manager responsible for performing hot reviews on audit files where there is a potential disagreement between your firm and the client regarding a material issue. You are reviewing the going concern section of the audit file of Alavanyo Ltd, a client with considerable cash flow difficulties, and other less significant operational indicators of going concern problems.

The working papers indicate that Alavanyo Ltd is currently trying to raise finance to fund operating cash flows, and state that if the finance is not received, there is significant doubt over the going concern status of the company. The working papers conclude that the going concern assumption is appropriate, but it is recommended that the financial statements should contain a note explaining the cash flow problems faced by the company, along with a description of the finance being sought, and an evaluation of the going concern status of the company.

The directors do not wish to include the note in the financial statements.

Required:

(i) State and comment on the possible reasons why the directors of Alavanyo Ltd are reluctant to provide the note to the financial statements.

(4 marks)

(ii) Identify and discuss the implications for the audit report if the directors agree to disclose the note.

(4 marks)

(Total: 20 marks)

QUESTION 4

- (a) In the context of a standard unmodified audit report, describe the content of a liability disclaimer paragraph, and discuss the main arguments for the use of a liability disclaimer paragraph. (5 marks)
- (b) Discuss why the identification of related parties, and material related party transactions, can be difficult for auditors. (5 marks)
- (c) You are the audit manager responsible for providing hot review on selected clients within your firm of Chartered Accountants. You are currently reviewing the audit working papers for Binaba Ltd, a long standing audit client, for the year ended 31 December 2009. The draft statement of financial position of Binaba Ltd shows total assets of GHS60 million (2008 – GHS56 million). The audit senior has made the following comment in a summary of issues for your review:

'Binaba Ltd's statement of financial position (balance sheet) shows a receivable classified as a current asset with a value of GHS125,000. The only audit evidence we have requested and obtained is management representation stating the following:

- (1) *that the amount is owed to Binaba Ltd from Kudi Ltd;*
- (2) *that Kudi Ltd is controlled by Binaba Ltd's chairman, Baba Musa; and*
- (3) *that the balance is likely to be received six months after Binaba Ltd's year end.*

The receivable was also outstanding at the last year end when an identical management representation was provided, and our working papers noted that because the balance was immaterial no further work was considered necessary. No disclosure has been made in the financial statements regarding the balance. Kudi Ltd is not audited by our firm and we have verified that Binaba Ltd does not own any share in Kudi Ltd.'

Required:

- (i) In relation to the receivable recognised on the statement of financial position of Binaba Ltd as at 31 December 2009, comment on **four (4)** matters you should consider and recommend **three (3)** further audit procedures that should be carried out. (7 marks)
- (ii) Discuss the quality control issues raised by the audit senior's comments. (3 marks)

(Total: 20 marks)

QUESTION 5

- (a) Explain **five (5)** reasons why a firm of auditors may decide NOT to seek re-election as auditor. (5 marks)
- (b) Asetenapa Ltd is a wholesaler of furniture (such as chairs, tables and cupboards). Asetenapa Ltd buys the furniture from six major manufacturers and sells them to over 600 different customers ranging from large retail chain stores to smaller owner-controlled businesses. The receivables balance therefore includes customers owing up to GHS125,000 to smaller balances of about GHS5,000, all with many different due dates for payments and credit limits. All information is stored on Asetenapa Ltd's computer systems although previous audits have tended to adopt an 'audit around the computer' approach.

You are the audit senior in charge of the audit of the receivables balance. For the first time at this client, you have decided to use audit software to assist with the audit of the receivables balance. Computer staff at Asetenapa Ltd is happy to help the auditor, although they cannot confirm completeness of systems documentation, and warn that the systems have very old operating systems in place, limiting file compatibility with more modern programs. The change in audit approach has been taken mainly to fully understand Asetenapa Ltd's computer systems prior to new internet modules being added next year. To limit the possibility of damage to Asetenapa Ltd's computer files, copy files will be provided by Asetenapa computer staff for the auditor to use with their own audit software.

Required:

- (i) Explain **four (4)** audit procedures that should be carried out using audit software on the receivables balance at Asetenapa Ltd. For each procedure, explain the reason for that procedure. (6 marks)
- (ii) Explain **three (3)** potential problems of using audit software at Asetenapa Ltd. For each problem, explain how it can be resolved. (6 marks)
- (iii) Explain the concept of 'auditing around the computer' and discuss why this increases audit for the auditor. (3 marks)

(Total: 20 marks)