



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
MSC ACCOUNTING AND FINANCE
END OF SECOND SEMESTER EXAMINATIONS – 2021/2022 ACADEMIC YEAR**

LEVEL 500

MACF 509: AUDITING AND ASSURANCE

APRIL 2022

80 MARKS.

3 HOURS

**GENERAL INSTRUCTIONS TO CANDIDATES:
THERE ARE FIVE (5) QUESTIONS IN ALL
YOU ARE TO ATTEMPT ANY FOUR (4) OF THESE FIVE QUESTIONS**

QUESTION ONE

- a) Although auditors can incur civil liability under various statutes, it is more likely that they will incur liability for negligence under common law, as most cases against auditors have been in this area. Therefore, auditors must be fully aware of the extent of their responsibilities to minimize the danger of professional negligence claims.

Required:

Discuss **FIVE (5)** steps that auditors should take to minimize the danger of claims against them for professional negligence. **(5 marks)**

- b) Your firm has recently completed the audit of Jackson Company. After extensive discussion with the company's management, the audit opinion has been qualified in respect of the auditors' inability to agree with management on the appropriateness of a provision for obsolete inventory.

The Managing Director has informed you that the company intends to change its auditors and engage the services of a small local firm of accountants. He informed you verbally that the reason for their decision is the disagreement over the provision for inventory obsolescence.

Jackson Company is convinced that the new auditors are more likely to accept the accounting policies of management. You have received a letter from the new auditors enquiring if there are any professional reasons why they should not accept appointment as auditors of Jackson Company.

Required:

- i) In view of the attitude of management towards your firm, discuss the factors which the new auditors need to consider before accepting the appointment. **(3 marks)**
- ii) Explain the ethical implications for the new auditors if they accept the appointment as auditors. **(2 marks)**
- c) Aglebe Ltd manufactures surgical instruments which are sold to hospitals and clinics. Due to the increased use of laser surgery in the last four years, demand for a traditional metal surgical instrument, which provided 75% of revenue in the year ended 30 June 2007, has declined rapidly.

You have been recently appointed auditor of Aglebe Ltd, and during preliminary discussions with some senior management, the following matters came to light:

Aglebe Ltd is expanding into laser surgery equipment, but research and development are at an early stage. However, the directors feel confident that the laser instruments being currently designed will eventually receive the necessary license for commercial production, and that the laser product will replace surgical instruments as a leading source of revenue. There is currently one scientist working on the laser instrument, subcontracted by Aglebe Ltd, on a freelance basis. In addition, the building in which the research is being carried out has recently been significantly extended by the construction of a large laboratory.

A considerable revenue is derived from agents who Aglebe Ltd does not employ. The agents earn a commission based on the value of sales they have secured for Aglebe Ltd

during the year. There are many suppliers in the market, and agents are used by all manufacturers to market and distribute their products.

The company's manufacturing facility is located in another country, where operating costs are significantly lower. The facility is under the control of a local Manager who visits the head office of Aglebe Ltd annually for a meeting with senior management. Products are imported by air. The overseas plant and equipment is owned by the company and was constructed 12 years ago specifically to manufacture metal surgical instruments.

The company has a bank overdraft facility and utilises it throughout the credit period. In addition, a significant bank loan that will carry a variable interest rate is currently being negotiated. The terms of the loan will be finalised once the bank has viewed the audited financial statements.

The Managing Director of Aglebe Ltd owns a supply chain company that supplies surgical instruments. He is known to be a disciplinarian and members of staff of the company including management would do everything possible to avoid any form of conflict with him.

Required:

Explain **FOUR (4)** principal audit risks facing Aglebe Ltd.

(10 marks)

(Total: 20 marks)

QUESTION TWO

- b) Fundamental principles require that a member of a professional accountancy body behave with integrity in all professional, business, and financial relationships and strive for objectivity in all professional and business judgments. Objectivity can only be assured if the member is and is seen to be independent. Conflicts of interest have an essential bearing on independence and the public's perception of the accounting profession's integrity, objectivity, and independence.

The following scenario is a press report on a multinational firm of accountants:

The regulatory body directed a partner in a firm that he must resign because he was in breach of the regulatory body's independence rules. His brother-in-law was the Financial Controller of an audit client. He was informed that the alternative was for him to move his home and place of work at least 400 miles from the client's office, even though he was not the reporting partner. This made his job untenable. The accounting firm saw the regulatory body as 'taking its rules to absurd lengths'. Shortly after this comment, the multinational firm announced proposals to split the firm into the following areas: audit, tax and business advisory services; management consultancy; and investment advisory services.

Required:

In relation to integrity, objectivity and independence, discuss the impact the above events may have on the public perception of the multinational firm of accountants. (10 marks)

- c) Your audit client, Asuoyeboa Ltd, has recently hired an Internal Auditor to deal with increased regulatory requirements. Afrakoma, the CEO of Asuoyeboa Ltd, has indicated that she believes the presence of the Internal Auditor will dramatically reduce the work that your audit firm will have to perform. She anticipates that this will have an impact on the audit fee.

Required:

Draft a report indicating factors that will influence the extent to which the external auditors will rely on the Internal Auditors' work as per the requirements imposed by *ISA 610: Using the Work of Internal Auditors*. (10 marks)

(Total: 20 marks)

QUESTION THREE

a) *ISA 210 deals with the Auditor's responsibility in agreeing the terms of the audit engagement with management and where appropriate, those charged with governance.* This includes establishing certain preconditions for an audit and responsibilities which rests with management and where appropriate those charged with governance.

Required:

- i) What **THREE (3)** preconditions must be established before an audit engagement is accepted? **(6 marks)**
- ii) Under what **TWO (2)** circumstances will an auditor refuse an engagement? **(4 marks)**

b) Logistics Ltd is a Logistics and Freight Forwarding company based in the port city of Takoradi, and you are the Audit Manager in charge of the year-end audit. The draft financial statements show a profit before tax of GH¢2.6 million and total assets of GH¢18 million.

In your discussion with management, the following issues came up:

- i) Management informed you that due to the ongoing coronavirus pandemic, shipping from China has slowed down considerably, and as a result, many employees have been laid off. A redundancy provision of GH¢220,000 is included in the draft financial statements. The audit review and calculations confirmed that the redundancy provision should be GH¢450,000. The Finance Director is however not willing to adjust the draft financial statements. **(5 marks)**
- ii) An employee has filed a wrongful dismissal lawsuit against Logistics Limited for GH¢ 1.2 million. This case is ongoing and will not be resolved before the Auditor's report is signed.

The matter is disclosed as a contingent liability.

(5 marks)

Required:

Discuss each of the issues i) and ii) above and describe their impact on the Auditor's report, if any, should these issues remain unresolved in terms of *ISA 705 (revised)*; *Modification of the Auditor's Opinion*.

(Total: 20 marks)

QUESTION FOUR

- c) You are an audit manager at Abdulai Afriyie & Co., a firm of Chartered Accountants. You are currently preparing the audit of Adoma Mining & Jewelries Ltd for the year ended 28 February 2019. Adoma Mining & Jewelries Ltd is a small Mining and Minerals Company which offers an extensive range of services that covers exploration, jewellery production, industrial applications, decommissioning and closure. You reviewed the previous years' files for this client and noted the following:
- d) The previous financial statements were prepared by the Consulting Division of Abdulai Afriyie & Co. and there is nothing in any of the files to suggest any particular difficulty with the assignment.
- e) In the course of the review of the files, it was observed there is a note explaining that on the completion of the assignment, each member of the consulting team with whom the client had come into contact, was given a gift of "presentation box" of the client's

Jewelries. These presentation boxes contain samples of each of the different jewelries produced by the client. These boxes are not available for sale but are sometimes given as gifts (for example, at Christmas) to loyal customers and others such as school principals who are seen to bring business to the client. Since this was a non-assurance assignment, the gifts were automatically and gratefully accepted.

- f) In early January 2019, the company received correspondence from the Ghana Revenue Authority (GRA) claiming that the company has failed to pay certain mineral royalties which are usually charged on the jewellery manufactured. Normally, these levies are automatically deducted when miners or mining companies sell minerals to dealers. In this case, all of the minerals extracted was used to make jewels and ornaments by the company itself; and so the company never considered the possibility that such royalties might apply to it. The Chief Executive Officer (CEO) of Adoma Mining & Jewelries Ltd tells you that he has done some research into the issue. It is his view that an argument can be made that the royalties do not apply in this case. However, should they apply, the amounts outstanding could be material since a number of years of non-payment might be involved. The CEO is aware that Abdulai Afriyie & Co. has a lot of Jewelleries based clients and has asked if Abdulai Afriyie & Co. would handle this matter as a separate assignment in addition to the audit.

Required:

Discuss **FIVE (5)** ethical issues that may arise for Abdulai Afriyie & Co. in relation to the audit of Adoma Mining & Jewelleries Ltd. **(10 marks)**

- d) Mobilefone Ltd (Mobilefone) is a large communication group which operates from several locations around the world. It has recently announced plans to expand its operations where it will offer a range of mobile communication facilities and provide internet services such as access, navigation and internet related software and services.

You are an Audit Manager of Kasim Hamza & Co. and you have been assigned with the planning work for the audit of Mobilefone and this will be the second year in which your firm has provided its audit services.

You have just met with the Finance Director (FD) of Mobilefone prior to agreeing the engagement letter for this year. The FD has informed you that Mobilefone has continued to grow quickly, with financial accounting systems changing rapidly and appropriate control systems being difficult to maintain. Additional services in terms of review and implementation of control systems have been requested. An internal audit department has recently been established within Mobilefone and the controller wants you to ensure that external audit work is limited by using this department.

You have also learnt that Mobilefone is to market a new type of mobile telephone, which is able to intercept messages from the emergency services. The legal status of this telephone is unclear at present and development is not being publicised. The granting of the franchise to market the mobile telephone is dependent on the financial stability of Mobilefone. The FD has indicated that Kasim Hamza & Co. may be asked to provide a report to the mobile telephone franchiser regarding Mobilefone's cashflow forecast for the year ending 31 March 2019, to support the franchise application.

Required:

As part of risk assessment procedures for the audit of Mobilefone for the year ending 31 March 2019, analyse **FIVE (5)** specific issues pertinent to this particular audit.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

GBCAL Co. Ltd. (GBCAL) operates a chain of food wholesalers across the country and its year end is 31 December 2018. The company is financed solely from equity including internally generated fund of the Company since incorporation.

The final audit is nearly complete and it is proposed that the financial statements and audit report will be signed on 31 January 2019. Revenue for the year is GH¢100 million and profit before taxation is GH¢ 15 million. Total assets amounted to GH¢ 500 million.

The following events have occurred subsequent to the year end.

Warehouse

GBCAL has three warehouses and following a torrential rain on 25 January 2019, the warehouse located in Adenta got flooded. All the inventory was damaged and has been written-off. The insurance company has already been contacted. No amendments or disclosures have been made in the financial statements.

Lawsuit

A key supplier of GBCAL is suing them for breach of contract. The lawsuit was filed prior to the year end, and the sum claimed by them is GH¢ 2 million. This has been disclosed as a contingent liability in the notes to the financial statements. However, a correspondence has just arrived from the supplier indicating that they are willing to settle the case for a payment by GBCAL of GH¢0.9 million. It is likely that the company will agree to this.

Receivable

A customer of GBCAL has been experiencing cash flow problems and owed the company GH¢ 0.08 million. The company has just become aware that its customer is experiencing significant going concern difficulties. GBCAL believe that as the company has been trading for many years, they will receive some, if not full, payment from the customer, hence they have not adjusted the receivable balance.

Required:

- a) For each of the three events above:
 - i) Discuss whether the financial statements require amendment. **(3 marks)**
 - ii) Describe audit procedures that should be performed in order to form a conclusion on the amendment. **(4 marks)**
 - iii) Explain the impact on the audit report should the issues remain unresolved. **(3 marks)**

- b) Describe your responsibility for subsequent events;
 - i) Assuming the events occurred before your report is signed **(5 marks)**
 - ii) Assuming the events occurred after signing your report but before the report was issued. **(5 marks)**

(Total: 20 marks)