QUESTION 1

(a) You are the Audit Manager in charge of the audit of Ghana Habours Company Limited (GHCL), a state-owned organisation for the year ended 31 December 2011. This is the company’s fourth year of operation after it was decoupled from the Ghana Sea Ports Authority (GSPA). GHCL is responsible for all sea entry points into the country and collects tolls from all ships entering and leaving the harbours and the taxes on passengers and goods on them. The GSPA is in charge of the safety of ships as long as they are in the territorial waters of the country.

The following, among others are some of the issues you have marked for discussion with the Audit partner:

1. During 2008, the government embarked on a modernization of some docking bays and provided special lighting to guide ships when entering the harbours as part of the African Cup of Nations infrastructure development. There are two issues you are not entirely satisfied with in connection with this:

   1.1 A significant quantity of very expensive lighting equipment has still not been installed but the company classified them as part of fixtures and fittings under Property, Plant and Equipment (PPE) in 2008 and provided depreciation on them in 2008, 2009, 2010 and 2011.

   1.2 The company created a long-term liability in favour of the government as the sole shareholder for the cost of the special lighting equipment and its installation in the accounts, but further investigation revealed that the Ministry of Finance provided the service without any expectation that GHCL will repay the expenditure.

2. GHCL was given half of the assets the combined GSPA had prior to the decoupling and inherited two independent companies – Tema Harbour Clinic Limited and Takoradi Seaman Centre Limited both of which are highly profitable businesses. The company did not provide any consolidated financial statements in 2008, 2009, 2010 and 2011.

Required:

(i) State the three (3) reasons why you consider that the classification of the uninstalled lights as PPE is conceptually and for tax purposes not correct. (4 marks)

(ii) Suggest, with reason, the correct classification for the uninstalled lighting equipment. (1 mark)

(iii) In connection with 1.2, specify the two (2) main pieces of audit evidence you would require management to provide the audit team to enable them to accept that no liability has to be created. (2 marks)
(iv) Supposing you get the evidence you need, explain the correct treatment of the credit entry in relation to the cost of the lighting and its installation.  

(1 mark)

(v) State with a reason, whether or not GHCL is correct in not providing consolidated financial statements to include the independent operations inherited from the decoupling in 2008, 2009, 2010 and 2011.

(2 marks)

(b) The chairman of the audit committee of GHCL has indicated that he would like the company to be proactive and to prepare its financial statement for 2011 in accordance with IFRS for SMEs in order to be familiar with the adoption of IFRS for SMEs in Ghana since the Institute of Chartered Accountants encourages earlier adoption of the standard.

Section 1 of IFRS for SMEs is devoted to the description of what is a Small and Medium-sized Enterprise (SME).

**Required:**

State and explain how the standard describes an SME.  

(10 marks)

(Total: 20 marks)

**QUESTION 2**

You are a senior manager in Tanor& Associates, responsible for the audit of Gyamfuwaah Group, which has been an audit client for several years. The companies in the group all have a financial year ending 30 June and you are currently planning the final audit of the consolidated financial statement for the year ending 30 June, 2010. The group’s operation focuses on the marketing of oil and gas products. Information about several matters relevant to the group audit is given below. These matters are all individually potentially material to the consolidated financial statements. None of the companies in the group is listed on the Ghana Stock Exchange.

**Gyamfuwaah Limited**

This is the parent company, it is a non-trading entity and wholly owns three subsidiaries – Wassa Limited, Hausa Limited and Banda Limited, all of which are involved in core marketing operations of the group.

This year, the directors decided to diversify the group’s activities in order to reduce exposure in the oil and gas marketing industry. Non-controlling interest representing long-term investments have been made in two companies – an internet-based fashion distribution agent, and a chain of cosmetic stores.

In the consolidated financial statements, these investments were accounted for as an associate and a joint venture respectively as Gyamfuwaah Limited is able to exert significant influence over the internet-based fashion distribution agency and entered into an agreement to jointly control the chain of cosmetic stores with its original sole owner.
As part of their remuneration, the directors of Gyamfuwaah Limited receive a bonus based on the profit before tax of the group.

In April 2010, the long standing group director of finance resigned due to a disagreement with the Chief Executive Officer (CEO) over changes to accounting estimates. A new group director of finance is yet to be appointed.

Wassa Limited
This company manufactures and distributes additives to lubricants. In July 2009, production was relocated to a new, very large factory. One of the conditions of the planning permission for the new factory is that Wassa Limited must, at the end of the useful life of the factory, dismantle the premises and repair any environmental damage caused to the land on which it is situated.

Hausa Limited
This company’s operations involve the manufacture and distribution of gas cylinders. The government paid a grant in November 2009 to Hausa Limited, to assist with costs associated with installing new, environmentally friendly packing lines in its factory. The packaging lines use gas as the only fuel. The company agreed to train fifty (50) previously unemployed young people each year for the first five years of operation in the conversion of all kinds of engines from using liquid fuel (diesel and petrol) to using gas as part of National Youth Employment Programme (NYEP) as the conditions of the grant, and they began operating in February 2010.

Banda Limited
This company is a new significant acquisition, purchased in January 2010. It is located in Liberia, an ECOWAS country, and has been purchased to supply iron ore, the main raw material for the gas cylinders produced by Hausa Limited. It is now supplying approximately half of the ingredients used in Hausa Limited’s manufacturing lines. Liberia has not adopted International Financial Reporting Standards, meaning that Banda Limited’s financial statements are prepared using the local accounting rules of Liberia. The company uses local currency to measure and present its financial statements.

Further Information
Your firm audits all components of the group in Ghana with the exception of Banda Limited, which is audited by a small local firm, Silver Associates, in Liberia. Audit regulations in Liberia are not based on International Standards on Auditing.

Required:

(a) Using the information provided, prepare briefing notes to be used in a discussion with your audit team, in which you evaluate the principal audit risks to be considered in your planning of the final audit of the consolidated financial statements for the year ending 30 June 2010. (15 marks)

(Note: Ignore those risks that relate to reliance on another auditor).

(b) Recommend the principal audit procedures that should be performed on the condition attached to the grant received by Hausa Limited. (5 mark)

(Total: 20 marks)
QUESTION 3

(a) You are a manager in the audit department of a large indigenous firm Makwar& Co with various divisions providing a wide variety of professional services. You are dealing with several ethical and professional matters raised at recent management meetings, all of which relate to audit clients of your firm.

1 Fiapre Limited has a year ending 30 June 2011. During this year, the company decided on earlier adoption of IFRS for SMEs to prepare the current year’s financial statements. The finance director of Fiapre Limited has contacted the audit engagement partner, asking if your firm can provide technical advisory service to the finance department in connection with the transition from Ghana National Accounting Standards (GNAS) to IFRS for SMEs.

2 The finance director of Hiada Limited has requested that a certain audit senior, Afia Anderson, be assigned to the audit team to perform the audit of the company. This senior has not previously been assigned to the audit of Hiada Limited. On further investigation it transpired that Afia Anderson is the sister of Hiada Limited’s financial controller.

Required:

Identify and evaluate the ethical and other professional issues raised, in respect of:

(i) Fiapre Limited; (7 marks)
(ii) Hiada Limited. (5 marks)

(b) Nkrumah Microfinance has been an NGO client of your firm since its establishment over two years ago. The company has recently obtained a licence from Bank of Ghana to operate as a Saving and Loans Company. The audit approach had primarily been to perform substantive tests of details as the company used a manual system.

Since obtaining the banking licence, the company has implemented a new microfinance application developed by the IT department of the company. In your discussion with the head of operations, you noted the following with regard to the credit (loans) functionality within the new system:

- The credit system is fully integrated with the savings system and all credit customers have a designated savings account for loans repayment deductions.
- The system posts all repayment in the night of the payment due day by checking for available cash in the designated repayment savings account.
- The credit system ages outstanding loans from the date a payment due is missed.
- Ageing of outstanding loans is recorded within the system.
Manual loan repayments can be posted in the credit system by cashiers on request from customers.

Loan Officers have no access to the manual loans repayment functionality.

**Required:**

(i) Outline the various security settings that an auditor would want to consider in reviewing the controls in the new system that would prevent a Loan Officer from trying to artificially improve the repayment record of his loan customers in the system.  

(4 marks)

(ii) List the audit procedures the auditor would perform to ensure that the security settings in (a) above have been properly implemented and are working as intended in the system.  

(4 marks)

(Total: 20 marks)

**QUESTION 4**

(a) International Standard on Auditing (ISA) 700 on “Forming an Opinion and Reporting on Financial Statements” specifies that the auditor’s report is considered modified in the following situations:

Matters that do not affect the auditor’s opinion – Emphasis of matter;

Matters that do not affect the auditor’s opinion –
   a. Qualified opinion;
   b. Disclaimer of opinion; or
   c. Adverse opinion

**Required:**

(i) Discuss, with examples, situations that give rise to a modified auditor’s report that do not affect the auditor’s opinion by adding an emphasis of matter.  

(4 marks)

(ii) Discuss the circumstances under which the auditor’s opinion is affected and state clearly when each of the situations can lead to either a qualified opinion, a disclaimer of opinion, or an adverse opinion.  

(9 marks)

(b) There are statutory requirements that have to be satisfied in addition to the professional requirements in terms of ISA on Reporting. This is normally added under ‘Report on other Legal and Regulatory Requirements’ after the auditor’s opinion in the audit report on financial statements.

**Required:**

State the Matters that the auditor is expected to state in his report in accordance with the Companies Code, Act 179, 1963.  

(7 marks)

(Total: 20 marks)
QUESTION 5

(a) You are the manager in charge of the audit of Kyekyerewere (KY) Limited for its first year of operation ended 31 July 2010. KY is a company which has been set up to take advantage of the quotas set for indigenous Ghanaians to provide downstream services to the large Oil and Gas Companies. Due to the highly regulated environment in which such companies have to operate, your partner has asked you to ensure that right from the planning stage you apply the requirements of ISA 220, *Quality Control, for an audit of Financial Statements*, strictly in the audit.

Your firm, Ekuona Associates is a three-partner practice.

**Required:**

Write a memo to the partners of Ekuona Associates in which you:

(i) State and explain the quality control procedures your firm would have to adopt for the audit of KY Limited in order to meet the requirements of ISA 220.  

(ii) State five (5) strategies you will follow to control and monitor audit time and cost during the forthcoming audit of KY Limited.

(b) Your firm is the auditor of Addai Machete Limited. You are aware that the company is seeking a listing on the Ghana Stock Exchange in September 2012. The listing rules require that interim financial information is published half-way through the accounting period, and that the information should be accompanied by a report issued by the company’s independent auditor.

**Required:**

Explain five (5) principal analytical procedures that should be used to gather evidence in a review of interim financial information.

*(Total: 20 marks)*