CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.4: AUDITING

FRIDAY 28, FEBRUARY 2025

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE
Marking guide

Question	Description	Total Marks
(a)	Award 1 mark per every audit limitation provided by the candidate Note: only five limitations were required Maximum of 5 marks means (5 limitation * 1 Marks each) Other limitations provided by a candidate not in the model answers are acceptable.	5
(b)	Award 1 mark per role of an auditor in ensuring that Board of Directors comply with good governance practices Note: only 5 roles were required Maximum of 5 marks means (5 points* 1 Mark each) Other correct roles provided by a candidate not in the model answers are acceptable.	5
(c)	Award 1 mark per every test of controls provided by the candidate Note: only four tests of controls were requested Maximum of 6 marks means (4 points* 1.5Mark each) Other correct test of controls provided by a candidate not in the model answers are acceptable	6
(d)	Award 1 mark per essential consideration provided by the candidate Note: only 4 essential considerations were requested Maximum of 4 marks means (4 points* 1 Mark each) Other correct test of controls provided by candidate not in the model answers are acceptable	4
	Total Marks	**20**

Model Answers

(a) Discuss five limitations of auditing SAFAR Ltd

- **Not every item is checked**. In fact, only test checks are carried out by auditors. It would be impractical to examine all items within a class of transactions or account balance. Hence, it is not really possible to give absolute assurance.
- **Auditors depend on representations from management and staff**. Collusion can mitigate some good controls such as division of duties. There is always the possibility of collusion or misrepresentation for fraudulent purposes.
- **Evidence gathered is persuasive rather than conclusive**. It often indicates what is probable rather than what is certain. Take for example vouching a bank statement. It only shows you that one account. Are there others
- **Auditing is not purely an objective exercise**. Judgements have to be made in a number of areas

- **An unqualified audit opinion is not a guarantee of a company's future viability**, the effectiveness and efficiency of management, nor that fraud has not occurred in the company.

(b) Explain five roles of an auditor in ensuring that Board of Directors comply with good governance practices

- **Assessment of Internal Controls**: Auditor evaluate the effectiveness of the Board's internal controls. This includes reviewing policies, procedures, and mechanisms put in place to ensure transparency, accountability, and ethical conduct. They identify weaknesses or gaps in these controls that could expose the organization to risks related to governance practices.
- **Identifying Risks**: Auditor identify and assess risks that could affect the company's ability to achieve its objectives. They examine risk management processes implemented by the Board and management to mitigate these risks effectively. By highlighting potential vulnerabilities, auditors enable the Board to make informed decisions to protect the organization's interests
- **Enhancing Financial Reporting:** Auditors help detect and prevent financial misstatements, ensuring the transparency and integrity of the financial reporting process.
- **Maintaining Legal Compliance:** Auditor assesses how well an organization adheres to internal bylaws, rules and regulations, standards, and even codes of conduct
- **Safeguarding Stakeholders' Interests:** Auditors provide stakeholders with assurance regarding the accuracy and reliability of information, thereby fostering trust and confidence in corporate operations.

(c) As an internal auditor at SAFAR ltd, describe four tests of controls required to assess if the controls are working effectively

Deficiency/Matters	**Test of control**
Good dispatched by clearing company. it does not file returns with Safar Ltd to confirm delivery	Select a sample of dispatches by clearing company and ask Safar Ltd proof of dispatch by viewing customer signature.
Customers have been complaining about delayed deliveries over the last 6 months	Select a sample of sales orders and compare the date of order to the good dispatch date to ascertain whether this is within the acceptable predetermined period
Customer credit limit is set by the sales ledger clerks	Enquire of sales ledger clerks as to whom can set credit limit, for a sample of new customers accepted in the year, review authorization of credit limit and ensure that this was performed by responsible official.
Sales discounts are granted by the sales team	Discuss with members of the sales team the process of setting credits limits. Review sales discounts report for evidence of review by the sales manager

Deficiency/Matters	Test of control
Suppliers statement reconciliations are not done	Review the file of reconciliations to ensure that they are being performed on regular basis and that they have been reviewed by a responsible person.

(d) State four essential consideration when removing an auditor of a company as its stated in Companies Acts

- An auditor of a company shall be automatically reappointed at an annual meeting of the company unless the company passes a resolution at the annual meeting appointing another person to replace the auditor; *Companies Acts Article 243*
- The directors of a company should give at least 30 days' notice to all those entitled to receive a set of accounts if a motion to remove the auditors is to be put to the members at an Annual Meeting. The auditors also have the right to receive a copy of such notice
- The motion to remove the auditor can be passed by a simple majority.
- The company should notify the registrar on the removal of the auditors and the auditor should forward the statement of circumstances to the company within a period of at least 14 days of ceasing to hold that office. A copy of this statement should be forwarded by the company to the Registrar General.
- The auditor has a right to receive notice of and speak at such an Annual Meeting where their term of office would have expired.

QUESTION TWO

Marking guide

Question	Description	Total Marks
(a)(i)	Award 1 mark per objective provided by the candidate Note: only 1 objective was required Maximum of 1 mark mean (1point* 1 Mark each) Other correct objective provided by candidate not in the model answer are acceptable.	1
(a)(ii)	Award 2 marks per auditor's opinion provided and explained by the candidate Maximum of 6 marks means (2 Marks per auditor's opinion provided and explained by the candidate *3 Opinions) Other opinions provided by candidate not in the model answers are not acceptable	6
(b)	Award 1 mark per control provided by the candidate Maximum of 6 marks means (1 Marks per *6 points) Other correct controls provided by candidate not in the model answer are acceptable.	6
(c)(i)	Award 1 mark per indicator provided by the candidate Maximum of 3 marks means (1 Marks per *3 points) Other correct indicators provided by candidate not in the model answer are acceptable	3
(c)(ii)	Award 1 mark per audit procedure provided by the candidate Maximum of 4 marks means (1 Marks per *4 points) Other correct audit procedures provided by candidate not in the model answer are acceptable	4
	Total Marks	**20**

Model Answers

(a) (i) Objective of auditor as per ISA 705

➢ The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when the financial statements are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence.

(a) (ii) Forms of audit opinion modifications:

➢ **Qualified opinion: or Except for**

This is a form of opinion issued by the auditor in two situations as follows:

o When the auditor has obtained sufficient appropriate evidence and there is a matter of concern which is material but not pervasive to the financial statements.

Secondly when there is a limitation of scope and the auditor has not obtained sufficient appropriate audit evidence and the matter is material but not pervasive to the financial statements.

The form that the opinion takes is that of '**except for**' the matter of concern, the financial statements show a true and fair view.

- **Adverse opinion:**

This is a form of modification of the opinion when the auditor obtains sufficient appropriate audit evidence and concludes that the matter of concern is both material and pervasive to the financial statements. The form that the opinion takes is that the financial statements do not show a true and fair view.

- **Disclaimer of opinion:**

In this case the auditor has not been able to gather sufficient appropriate audit evidence due to a limitation of scope. The matter of concern is both material and pervasive to the financial statements. The form of report is that the auditors disclaim forming an opinion and states that he is unable to form an opinion.

(b) Propose six controls that management of Urwego Ltd should consider in implementing a computer- based accounting system

Controls	**Explanations**
Development of computer applications	Installation procedures so that data are not corrupted in transition and ensure training of staff in the new procedures
Prevention or detection of unauthorized changes to programs	Segregation of duties, Full records of programmed changes through detailed maintenance of programme logs, Password protection of programs so that access is limited, Restricted access to central computers - locked doors & keypads, Virus checks of software and use of anti-virus software & firewalls, Back-up copies of programs secured off site
Testing and documentation of programme changes	Comprehensive testing procedures. Documentation standards applied, Approval of changes by management
Controls to prevent wrong programs or files being used	Adequate training of staff, Operation controls over programs and their use/access, Controlled libraries of programs, Proper automated job scheduling
Controls to prevent unauthorized amendments to data files	Password protection, use of security rights based on levels
Controls to ensure continuity of operations	Storing copies of programs off site Back-up procedures for data files to be stored off-site, Disaster recovery procedures Maintenance agreements and insurance

(c) (i) Three indicators that would cast doubt to auditor about the going concern status of a company

- Inability to pay dividends to shareholders continuously
- Major losses or cash flow difficulties that have arisen since the reporting date
- Adverse key financial ratios

- Indications of withdrawal of financial support from the bank or other financial institutions
- Negative operating cash flows
- Major debt repayments falling due which the entity will not be able to meet
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied
- Loss of key management without replacement
- Loss of key staff without replacement
- Inability to pay suppliers' invoices (payables) on due dates continuously
- Inability to obtain financing for essential new product development or other essential investments
- Technical developments which render a key product obsolete

(c) (ii) Four audit procedures that an auditor would carry out to obtain sufficient audit evidence to be able to form an opinion on the going concerns status of the company

Audit procedures are necessary in order to evaluate how the key management personnel have satisfied themselves that it is appropriate to adopt the going concern basis in preparing the financial statements. Procedures should include:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management
- Reviewing the terms of loan agreements and determining whether they have been breached
- Reading minutes of board meetings and relevant committees for any discussion of financing difficulties
- Reviewing events after the year end to identify factors relevant to the going concern assumption as a basis for the preparation of the financial statement
- Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances
- Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans
- Review events after the period end for items affecting the entity's ability to continue as a going concern
- Confirm the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties.
- Review Sensitivity of budgets/forecasts.

QUESTION THREE

Marking Guide

Question	Description	Marks
(a)	Award 1 mark for every audit procedure provided by candidate Note: only 8 audit procedures and their explanations were required Maximum of 8 marks means (8 points* 1 Marks each) Other correct audit procedures provided by candidate not in the model answers are acceptable.	8
(b)	Award 1 mark for every audit procedure provided by candidate Note: only seven audit procedures and their explanations were required Maximum of 7 marks means (7 points* 1 Marks each) Other correct audit procedures provided by candidate not in the model answers are acceptable	7
Q3 c)	Award 1 Mark for every test of control provided by candidate Note: only 5 audit procedures and their explanations were required Maximum of 5 marks means (5 points* 1 Marks each) Other correct test of control provided by candidate not in the model answers are acceptable	5
	Total Marks	**20**

Model Answers

(a) Describe eight audit procedures to be performed in assessment of Misstatements

Audit procedure to be performed in assessment of Misstatements

Financial statement	Audit Test
Completeness	Check if all transactions have been recorded in the financial statements i.e. all assets, liabilities, equity interests (capital and reserves) and other disclosures have been included in the financial statements.
Occurrence	Confirm if transactions and events and other matters that have been recorded actually took place and relate to the organization.
Valuation and allocation	Confirm if all items have been included in the financial statements at appropriate amounts according to company policy and the relevant financial reporting framework. Furthermore, any allocations or valuation adjustments required (like impairment) have been made and financial and other information is disclosed fairly and at appropriate amounts.
Classification and understandability	Assess if financial information is appropriately presented and disclosed, and disclosures are clearly expressed so as to make them understandable to the users. For this, the disclosures should use simple language and state matters clearly and concisely. and confirm if all financial information received proper and fair classified
Accuracy	Review if the amounts and other data relating to transactions and events have been recorded at the correct amounts i.e. at the amounts appearing in the source document

Financial statement	Audit Test
Rights and obligations	Assess if entity has a right to its assets i.e. it is free to use or dispose of the assets as it sees fit. Furthermore, the entity is obliged to pay off the liabilities that are shown in the statement of financial position.
Existence	Check if assets, liabilities and equity interests (capital and reserves) presented and disclosed belong to the entity on the reporting date. Or check if assets and liabilities really do exist and there has been no overstatement
Cutoff	Verify if Transactions and events have been recorded in the correct accounting period for example, if goods are delivered prior to year-end, they are included in the cost of goods sold, not inventory.

(b) Suggest Seven audit procedures to be performed by auditor in reviewing Bank balances

- Obtain standard bank confirmation from each bank with which clients conducted business during the period
- Re-perform arithmetic of bank reconciliation.
- Trace cheques shown as outstanding from the bank reconciliation to cash book prior to the year and to the to the after-date bank statements and explanations for any large or unusual items not cleared
- Compare cash book and bank statements in detail for the last of the year and match items outstanding at the reconciliation date to bank statements.
- Review bank reconciliation previous to the year -end bank reconciliation and test whether all items are cleared in the last period or taken forward to the year-end bank reconciliation
- Obtain satisfactory explanations for all items in the cashbook for which there are not corresponding entries in the bank statement and vice versa by discussion with finance staff
- Verify the bank balances with rely to standard bank letter and bank statements

(c) Describe at least five test of controls you would carry out to audit CIICN Ltd.'s sales system

Assertions	Control objectives	Test of controls
Occurrence and existence	To ensure that recorded sales transactions represent goods or services provided	Observe the processing of orders through the sales cycle and inspect sign-offs to evaluate whether proper segregation of duties is operating For a sample of sales invoices, ensure there is a related sales order form that has been authorized and shipping documentation Examine application controls for authorization
Completeness	To ensure that all revenue relating to goods dispatched is recorded	Review and test entity's procedures for accounting for numerical sequences of invoices and inspect invoices to confirm whether they are sequentially numbered
Accuracy	To ensure that all sales and adjustments are correctly journalized, summarized and posted to the correct accounts	Review supporting documents for a sample of sales entries to ensure they contain the written details that indicate they were referred to when entered.
Cut-off	To ensure that transactions have been recorded in the correct period	Compare dates on sales invoices with dates of corresponding shipping documentation Compare dates on sales invoices with dates recorded in the sales ledger
Classification	To ensure that all transactions are properly classified in accounts	Inspect any documentary evidence of review Test application controls for proper codes.

SECTION B

QUESTION FOUR
Marking Guide

Qn	Description	Marks
(a)	Award 1 mark for every disadvantage provided by candidate with explanation Note: only 5 disadvantages of outsourcing an internal audit function and their explanations were required Maximum of 5 marks means (5 points* 1 Marks each) Other correct audit procedures provided by candidate not in the model answers are acceptable.	5
(b)	Award 1 mark for every responsibility provided by candidate Note: only 4 responsibilities and working relationship between an audit committee and the external audit were required Maximum of 4 marks means (4 points* 1 Marks each) Other correct audit procedures provided by candidate not in the model answers are acceptable	4
(c)	Award 1 mark for every matter that auditor may have professional liability provided by candidate and Award 1 Mark for every matter prove the tort of negligence Note: Maximum of 6 marks means (3 points* 1 Mark each on matter auditor may have professional liability + 3 Points *1 mark each matter prove the tort of negligence) Other correct matters that auditor may have professional liability under statute law and three (3) matters prove the tort of negligence provided by candidate not in the model answers are acceptable	6
(d)	Award 1 mark for every duty and responsibility provided by candidate Maximum of 5 marks means (5 points* 1 Marks each) Other correct duties and responsibilities provided by candidate not in the model answers are acceptable	5
	Total Marks	**20**

Model answers
(a) Explain five Disadvantage of outsourcing an internal audit function

- **Confidentiality:** although the service agreement provides confidentiality clause s this may not stop breaches of confidentiality.
- **Cost:** The cost of the outsourced service may be too high for the company which means an internal audit unit is not established at all.
- **Control**: where internal audit is provided in house, the company will have more control over the activities of internal audit unit there is less need to discuss work patterns or suggest areas need improvement.
- **Self-review threat**: outsourced function considered as external audit, there may be conflict of interest where internal audit work is then relied upon by external auditors
- **Lack of convenience**: it means that if you need the internal audit work you cannot get it on time because the auditors may be at other client work.

(b) Explain four (4) responsibilities and working relationship between an audit committee and the external audit firm

- Audit committee recommends the appointment and remuneration of the external auditor.
- Audit committee reviews the dismissal and resignation of the external auditor.
- It discusses with the external auditor at the start of the audit on the nature and the scope of the audit.
- The committee helps the auditor to obtain information required and resolve any problem that they may encounter.
- The committee discusses the contents of the management letter with the external auditor.

(c) Discuss three (3) matters that auditor may have professional liability under statute law and three (3) matters prove the tort of negligence

Three (3) matters demonstrate when auditors have professional liability under statute law:

- In insolvency legislation, the auditor could be found to be an officer of the company and thus could be charged with a criminal offence in connection with the winding up of the company.
- An auditor could be found to be guilty of insider dealing, which is a criminal offence.
- Auditors could be found guilty of a criminal offence in respect of money laundering issues as to their failure to report any known suspicions to the proper authority.
- Failure to report issues that are required under company law such as those mentioned on the audit report.

Three (3) matters prove Tort of negligence

Negligence is based on common/customary law. It seeks to provide compensation to loss suffered by one due to another's wrongful neglect.
To succeed, an injured party must prove:

- A duty of care existed
- The duty of care was breached
- The actual breach caused the loss.
- The loss was as a result of reliance on auditor's work

(d) Discuss Five duties and responsibilities of reviewers in relation to the audit engagement

Review responsibilities are determined on the basis that the more experienced members of the audit engagement, review work performed by less experienced persons. The reviewers consider whether:

- The work has been performed in accordance with professional standards,
- Significant matters have been raised for further consultation,

- Appropriate consultations have taken place and the consultations have been documented and implemented,
- There is a need to revise the nature, timing and extent of the work performed,
- The work performed supports the conclusions reached and is appropriately documented,
- The evidence obtained is sufficient and appropriate to support the auditor's report,

QUESTION FIVE

Marking Guide

Qn	Description	Marks
(a)	Award 2 marks for definition of risk based internal auditing and award 1 mark per every reasons why you should take a risk-based audit approach **Note:** only definition and Five reasons were required Maximum of 7 marks means (2 points per definition and 5 reasons *1 Mark) **Other correct definition and reasons provided by candidate not in the model answers are acceptable**.	**7**
(b)	Award 1 mark for every audit procedure provided by candidate **Note:** only 5 audit procedures were required Maximum of 5 marks means (5 points* 1 Marks each) **Other correct audit procedures provided by candidate not in the model answers are acceptable**	**5**
(c)	Award 1 mark for every audit procedure provided by candidate **Note:** only 5 audit procedures were required Maximum of 5 marks means (5 points* 1 Marks each) **Other correct audit procedures provided by candidate not in the model answers are acceptable**	**5**
(d)	Award 1 Mark for every element provided by candidate **Note:** only 3 elements were required Maximum of 3 marks means (3 points* 1 Marks each) **Other correct elements provided by candidate not in the model answers are acceptable**	**5**
	Total Marks	**20**

Model answers

(a) In the context of the above scenario explain meaning of "Risk-based internal auditing'' and discuss five (5) reasons why you should take a risk-based audit approach

Risk-based auditing is an approach to auditing that focuses on identifying and prioritizing areas of risk within an organization, and then designing an audit plan to address those risks ensures that the greatest effort is directed at those areas of the financial statements that are most likely to be misstated. The chance of detecting errors is therefore improved and time is not wasted on testing safe areas allows audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite."

The top five reasons of taking risk-based internal auditing

- **Enhanced understanding of risk levels**

By scoping audits in the context of a risk management framework, it is far easier to identify the priority of risks based on indicators such as risk velocity and severity. This enables businesses to understand the consequences of their actions in relation to each risk, and where opportunities for advancement may lie to mitigate any future risks.

- **Improved resilience in the face of uncertainty**

Risk-based audits are invaluable at a time of uncertainty, as they allow businesses to adapt more easily to changing conditions through a consistent and comprehensive approach to risk management. The risk-based audit methodology also forces organizations to look beyond the here and now to the emerging risks that will inevitably need to be tackled.

- **Better use of audit resources**

Contrary to traditional internal auditing methods, risk-based internal audits drive the allocation of resources in a far more targeted way since the wider audit plan is determined by the severity and volume of risks of which senior management requires assurance. Where the high-risk areas emerge, that is where the audit team channels their efforts

- **More buy-in from senior management**

Risk-based auditing involves a much more inclusive approach, where awareness about the risk and audit process is raised across the organization through activities such as workshops and self-assessments. With senior management also closer to this process and understanding how audit's recommendations support their business objectives, they are more likely to appreciate the true value of internal audit and take greater ownership of risk.

- **Higher likelihood of achieving business objectives**

Further to the previous point, a risk-based auditing approach combines all aspects of the risk and audit universe which include objectives, risks, controls, processes, evaluations and reports. The relevance of any one aspect can be clearly viewed in relation to the entire risk management framework, such as the significance of a defective control or the risk that the control has been put in place to manage. This approach also means that it is apparent when a key objective is being threatened so that measures can be quickly established to mitigate the risk before it impacts the organization's ability to achieve that objective.

Taking a risk-based audit approach is widely considered best practice in the field of auditing for several compelling reasons:

- **Focus on Significant Risks**

By adopting a risk-based audit approach, auditors prioritize their efforts on areas of the business that pose the highest risk. This ensures that limited audit resources are allocated where they can have the most significant impact. Identifying and addressing these significant risks helps management and stakeholders have greater confidence in the audit findings and recommendations.

- **Efficiency and Resource Optimization**

Traditional audit approaches can be time-consuming and resource-intensive, often resulting in audits that cover low-risk areas extensively while neglecting high-risk ones. A risk-based approach allows auditors to allocate resources efficiently by concentrating efforts on critical areas, thereby optimizing the use of time and resources.

- **Enhanced Audit Effectiveness**

When auditors focus on areas with the highest risk, they are more likely to uncover material misstatements or issues that could impact the organization significantly. This proactive approach increases the chances of detecting fraud, errors, or compliance issues early, allowing management to take corrective action promptly.

- **Alignment with Strategic Objectives**

Risk-based auditing helps align audit activities with the strategic objectives of the organization. By focusing on risks that are most pertinent to achieving these objectives, auditors provide valuable insights that can contribute to better decision-making and overall performance improvement.

- **Stakeholder Confidence and Transparency**

Stakeholders, including investors, regulators, and management, increasingly expect auditors to provide assurance that goes beyond mere compliance with standards. A risk-based audit approach enhances transparency by demonstrating that audits are tailored to the specific risks faced by the organization, thereby enhancing stakeholder confidence in the audit process and its outcomes.

(b) Elaborate Five audit procedures to be performed on audit of Tangible Non- current Assets

Substantive procedure for Tangible non-current asset

Financial statement	Audit Test
Existence	-Confirm that the company physically inspects all items in the non-current assets -Inspect assets, concentrating on high value items and addition in -year confirm that items inspected: exist, are in use, are in good condition, have correct serial numbers
Completeness	Reconcile summary of non-current asset showing the key items with their opening position - Gross book value (Initial Cost) -Additions or acquisition - Accumulated depreciation - Net Book value
Rights and obligations	Verify title to land and building inspection of Title deeds. Land registry certificates

Valuation	Verify valuation to valuation certificate Consider reasonableness of valuation, reviewing experience of valuer, scope of work, method of assumptions used and valuation bases are in line with accounting standards
Classification	Check if the tangible assets have been recorded in the correct accounts and expenses which is not a capital nature are taken to profit and loss Review non -current assets disclosures in financial statements to ensure they meet IAS 16 Criteria.

(c) In context of the above statement describe five (5) audit procedures required in respect of accounting estimates

Describe the audit procedures required in respect of accounting estimates.

Accounting estimates is defined as a monetary for which measurement in accordance with the requirements of the applicable financial reporting framework is subject to estimation uncertainty

Audit procedure include:

- Test the operating effectiveness of the controls over how management made the accounting estimate.
- Precomputation of accounting estimates
- Enquire from management how the accounting estimate was arrived at and the data on which it was made
- Evaluate overall whether the accounting estimates in the financial statements are either reasonable or misstated
- Obtain sufficient appropriate audit evidence about whether the disclosure in the financial statement is related to accounting estimates and estimations of uncertainty
- Review the method of measurement used and assess the reasonableness of assumptions made

(d) Explain at least three contents of an audit report

- **Title**

It should clearly indicate that the report is prepared by an independent auditor. This independence confirms that all the relevant ethical standards have been met.

- **Addressee**

The auditor needs to consider the circumstances of the engagement and the local regulations. Under company law the audit report should be addressed to the shareholders.

- **Opinion paragraph**

This paragraph will: Identify the entity been audited, State that the financial statements have been audited, identify each of the financial statements being audited, refer to the significant accounting policies and other notes contained within the financial statements and specify the date and period covered by the financial statements.

➢ **Basis for audit opinion** the basis for opinion paragraph must state that the audit was conducted in accordance with the ISAs, and refer to the 'Auditor's responsibilities for the audit of the financial statements' section which describes the auditor's responsibilities under the ISAs. The auditor must also state that they are independent of the audited entity, in accordance with the relevant ethical requirements relating to the audit. and finally, the auditor must state that they believe the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion.

➢ **Going concern**

Where the auditor considers a material uncertainty related to going concern exists, this should be described in a separate paragraph headed 'Material uncertainty related to going concern'.

➢ **Key audit matters**

For the audit of listed entities, or where required by law or regulation, the auditor should include a 'Key audit matters' section. This section describes the matters that, in the auditor's professional judgement, are most significant to the audit.

QUESTION SIX

Marking Guide

Question	**Description**	**Marks**
(a) (i)	Award 1 mark for every main legislative mandate of the auditor General provided by candidate Note: only 3 mandates were required Maximum of 3 marks means (3 points* 1 Marks each) Other correct main legislative audit mandate for the Office of the Auditor General provided by candidate not in the model answers are acceptable	**3**
(a) (ii)	Award 1 mark for every main legislative mandate of the auditor General provided by candidate Note: only 4 matters were required Maximum of 4 marks means (4 points* 1 Marks each) Other correct matters that should be included in the draft engagement letter provided by candidate not in the model answers are acceptable	**4**
(b)	Award 1 mark for every specific consideration of public sector Auditing and 1 Mark per each type of audit performed by the Office of the Auditor General provided by candidate Note: only 2 specific matters were required and three types of Audits performed by the Office of the Auditor General Maximum of 5 marks means (2 specific consideration * 1 Mark each and 3 types of audit *1 Mark per each) Other answers provided by candidate not in the model answers are not acceptable	**5**
(c)	Award 1 mark for every objective and 1 Mark per each consideration of the auditor's responsibilities relating to Other Information Note: Only four (4) objectives and four (4) consideration of the auditor's responsibilities relating to Other Information were required Maximum of 8 marks means (4 objectives * 1 Mark each and 4 considerations *1 Mark per each) Other answers provided by candidate not in the model answers are not acceptable	**8**
	Total Marks	**20**

Model Answers

(a) (i) Three main legislative audit mandate for the Office of the Auditor General

- The Office of the Auditor General of State Finances (OAG) is an independent State organ responsible for the auditing of State finances and assets.
- The Office of the Auditor General of State Finances submits each year, to both Chambers of Parliament, prior to the commencement of the session devoted to the examination of the State budget of the following year, a complete report on the balance sheet of the State budget of the previous year. The report also indicates the manner in which the budget was executed, unnecessary or unlawful expenditures, and whether there was embezzlement or squandering of public funds.
- The Office of the Auditor General of State Finances has responsibility to confirm whether government laws, and policies are complied with regarding accounting and budgeting.

(a) (ii) Four Matters that will be included in the draft engagement letter:

- The objective and scope of the audit of the financial statements.
- The responsibility of the auditor.
- The responsibilities of management.
- Identification of the financial reporting framework for the preparation of the financial statements.
- The audit fees
- If the report is available for third parties

(b) Describe two specific consideration of public sector Auditing and state three (3) types of Audits performed by the Office of the Auditor General

Two (2) specific considerations of public sector Auditing

- Public sector audit has a key role to play in safeguarding public money, ensuring proper accountability, upholding appropriate standards of conduct in public services and helping public services achieve value for money.

- Public sector auditors are accountable for their performance and are duty bound to undertake their work in a professional, objective and cost-effective manner and with due regard to the needs of the organizations they audit.

Three (3) Types of audits performed by the OAG:

- **Financial audits**- The purpose is to determine whether the financial information provided is presented in accordance with the applicable reporting framework for that entity.
- **Performance audits**-Also known as value for money audits is to assess whether the programme is operating in accordance with the principles of Economy, Efficiency and Effectiveness
- **Compliance audits**- assess whether activities are in conformity with established rules, regulations, laws, established policy, and budgetary decisions

(c) Discuss four (4) objectives and four (4) consideration of the auditor's responsibilities relating to Other Information

Four audit objectives relating to other Information includes:

- To consider whether a material inconsistency exists between the other information and the financial statements
- To remain alert for indications that a material inconsistency exists between the provided information and the reporting standards.
- To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated
- Ensuring there is consistency between books of accounts and financial statements.
- Assessing whether disclosure notes is appropriately presented alongside the financial statements.
- Verifying its compliance with relevant reporting standards, and confirming that it does not contradict the audited financial statements.

Four auditor's responsibilities relating to Other Information are as follows:

1. Issue a statement that management is responsible for the other information
2. The auditor is not responsible for information obtained after his reporting date.
3. Issue a statement that the auditor's opinion does not cover the other information.
4. Auditor has responsibility to review other information to confirm whether material to affect his opinion or not.
5. Where other information has been obtained, either a statement that the auditor has nothing to report, or a description of any uncorrected material misstatement
6. Communication with those Charged with Governance.

The auditor should communicate with those charged with governance the auditor's responsibility with respect to other information, the procedures performed related to the other information, and the result

7. Reading and Considering the Other Information.

The auditor should read the other information and consider whether a material inconsistency exists between the other information and the financial statements. As the basis for this consideration, to evaluate their consistency, the auditor should compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements) with such amounts or other items in the financial statements.

END OF MARKING GUIDE AND MODEL ANSWERS