

FULL AUDIT

QUESTION ONE

BACKGROUND

The date is 22 June 2018 and your audit firm (Mwape & Co.) has been approached by Ubumi Pharmaceuticals Ltd, a company which was commissioned by the government three (3) years ago at the Lusaka East Multi-facility Economic Zone (MFEZ), to tender for their statutory audit for the years ending 30 June 2018, 30 June 2019 and 30 June 2020. The firm employs 120 Zambians and 260 Chinese expatriates who will oversee skills development and knowledge transfer. Zambia, like other sub-Saharan African countries, is burdened with diseases, which requires a high consumption of pharmaceutical products.

Currently, most of the essential medicine and medical supplies are imported from cheaper Asian pharmaceuticals and has made it difficult for Ubumi Pharmaceuticals Ltd to compete. At the moment, the company is highly dependent on government contracts. Due to Ubumi Pharmaceuticals Ltd's strategic nature to the country, there is a possibility that the government could take over the company before the end of 2019. The board will then be required to prepare financial statements using International Public Sector Accounting Standards (IPSAS). The board has been informed that ZiCA fully supports the adoption of accrual IPSAS as the financial reporting framework in government but wants the Finance Director to engage an expert to provide more detailed guidance.

Pharmaceutical sub-sector is affected by problems such as the lack of national quality control laboratories and companies use their own in-house laboratories. The Pharmaceutical Regulatory Authority has outsourced its quality control functions to laboratories abroad. Government is in dialogue with the United Nations Industrial Organisation over the development of a technical framework. Similarly, in collaboration with Government, the European Union is supporting the Zambia Medicines Regulatory Authority to construct the national quality control laboratory.

Government, however, is determined to create an enabling environment to promote local manufacturing of drugs. Its target is to revive the pharmaceutical manufacturing sector by waiving all duties and taxes on inputs and materials relating to pharmaceutical activity.

Ubumi Pharmaceuticals Ltd currently owes the Zambia Revenue Authority (ZRA) and the National Pensions Authority (NAPSA), K4,326,134 and K843,910 respectively. This is mainly due to reduced orders from the government coupled with delayed payments. The Finance Director (FD), a Zambian CA qualified accountant, has had meetings with senior accounts government

officials, including the Secretary to the Treasury but to no avail. At the moment, Ubumi Pharmaceuticals Ltd is heavily reliant on the overdraft facility. The accounts department at Ubumi Pharmaceuticals Ltd consists of the Finance Director, Accountant, Accounts Clerk, Secretary and Driver.

During the recent cholera outbreak in the country, Ubumi Pharmaceuticals Ltd was one of the few companies which failed to offer any form of support to the government. The area councilor had requested for some mini water purification for local schools as well as medical equipment for prevention of cholera.

You are an Audit Manager working at Mwape & Co. and will be managing the audit of Ubumi Pharmaceuticals Ltd if Mwape & Co. is appointed. Mwape & Co. is a large audit firm with branches around the country and in Europe. The firm has over 500 clients in many different industries, except the pharmaceutical industry. The opportunity to be able to audit Ubumi Pharmaceutical Ltd has excited the partners who want to use this chance to penetrate the lucrative pharmaceutical industry at all costs.

You have a meeting scheduled with the Chief Executive Officer (CEO) and Finance Director (FD) of Ubumi Pharmaceuticals Ltd next week to discuss the contract in more detail.

RESEARCH ON UBUMI PHARMACEUTICALS LTD

You have carried out some research on Ubumi Pharmaceuticals Ltd by reviewing their website, brochures and also by reading articles from the national press, and have identified the following key points:

1. Ubumi Pharmaceuticals Ltd is wholly owned by a retired Chinese Pharmacist who has experience in the pharmaceutical industry. He is the Chairman of the company but his responsibilities are currently carried out by the CEO because he is just recovering from a partial stroke. The Chairman is also a senior government official.
2. Ubumi Pharmaceuticals Ltd, buy most of their raw materials from Asian countries.
3. During the year the company introduced on-line sales.
4. The FD is your former classmate at Kitwe Boys Secondary School.

NOTES FROM THE MEETING WITH THE CEO AND FD

1. The CEO is the young brother to the owner of Ubumi Pharmaceuticals Ltd and is responsible for implementing the decisions of the board and its committees, developing the main policy statements and reviewing the business's organisational structure and operational performance.

2. The CEO informs you that the government of the Republic of Zambia has passed a law to compel all companies to invest in proper waste management systems. Ubumi Pharmaceuticals Ltd has been promised funding by a reputable bank provided the current ratio as at 30 June 2018 is 3:1 and the owner provides personal guarantees for the lending.
3. The FD informs you that some documents will not be made available to Mwape & Co. because they contain trade secrets.
4. The FD informs you that on-line sales account for 35% of the total sales.
5. The FD has asked your firm to commence the audit immediately because audited accounts are needed by the bank by 18th August 2018.
6. Ubumi Pharmaceuticals Ltd would also like your firm to prepare the financial statements and tax computations for the year in addition to the audit work. A new partner with experience in taxation has joined Mwape & Co. It has been suggested that the partner could be responsible for the preparation of financial statements and tax computations for Ubumi Pharmaceutical Ltd.
7. The FD has requested the Engagement Partner to make a presentation at the next board meeting regarding the benefits of accrual of IPSAS and the impact on Ubumi Pharmaceuticals Ltd.

NOTES FROM THE MEETING WITH THE ENGAGEMENT PARTNER

1. Matthews Lopi is the Engagement Partner and his auntie is a director at Ubumi Pharmaceuticals Ltd and should be able to assist with any difficulties the auditors have.
2. Matthews Lopi raises his concern over staffing as it is a busy time of year for the audit firm, and three (3) managers are on study leave.
3. The partner has asked you to prepare briefing notes on benefits of accrual of IPSAS and the impact on Ubumi Pharmaceuticals Ltd.

DRAFT EXTRACT FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Ubumi Pharmaceuticals Ltd

Draft Statement of Profit or loss for the year ended 30 June 2018

	2018	2017
	K'000	K'000
Revenue	82,600	67,650
Cost of sales	<u>(71,900)</u>	<u>(49,430)</u>
Gross profit	10,700	18,220

Ubumi Pharmaceuticals Ltd

Draft Statement of Financial Position as at 30 June 2018

	2018	2017
	K'000	K'000
Non-current assets		
Property, plant and equipment	76,935	63,872
Current assets		
Inventory	12,447	14,643
Non-current liabilities		
Long term loan	10,500	8,600
Current liabilities		
Trade payables	7,162	3,673
Accruals	5,169	1,822
Bank overdraft	2,940	600

Notes:

1. Recognised within revenue are a series of credit sales of inventory totaling K32 million that took place close to the year end. Ubumi Pharmaceuticals Ltd continues to hold the legal title to this inventory.
2. The total assets as at 30 June 2018 are K130 million and the profit before tax is K7 million. There are indicators of impairment of assets.
3. Inventory counting was poorly conducted and it appeared inventory held by third parties was left out.
4. On 5 July 2017, Ubumi Pharmaceuticals Ltd issued a K4 million debenture at par, with a nominal rate of interest of 12%. The debenture has a redemption period of two years. However, at the point of redemption, the holder also has an option to convert the debentures into 2 million K1 ordinary shares in Ubumi Pharmaceuticals Ltd. The debenture is shown as a long-term liability at the net proceeds of issue. The first payment of interest on 30 June 2018 has also been recorded.
5. An accounts clerk is in charge of trade payables. Amendments/additions/deletions to the data are not authorised.

SECTION A

(1) Identify and explain:

(a) Matters to consider before Mwape & Co. accept the appointment as auditor of Ubumi Pharmaceuticals Ltd. (4 marks)

(b) Ethical threats to independence raised in Ubumi Pharmaceuticals Ltd. (5 marks)

(2) Suggest money laundering procedures that Mwape & Co. must undertake before and after accepting the appointment as auditor to Ubumi Pharmaceuticals Ltd. (7 marks)

(3) As part of your risk assessment procedures for Ubumi Pharmaceuticals Ltd, identify and explain in detail:

(a) Eight (8) main audit risks, using your knowledge of the business. (12 marks)

(b) Twelve (12) business risks, using your knowledge of business. (18 marks)

(4) Prepare briefing notes to be presented to the Partner in which you list the benefits of accruals of International Public Sector Accounting Standards (IPSAS) and the impact of the change on Ubumi Pharmaceuticals Ltd. (4 marks)

(50 marks)

SECTION B

(5) Explain:

(a) Five (5) possible risks of material misstatement, using analytical procedures. (10 marks)

(b) Audit procedures you would undertake regarding the possible misstatements (in (a) on:

(i) Revenue (6 marks)

(ii) Non-current assets (6 marks)

(iii) Inventory (7 marks)

(iv) Trade payables and accruals (7 marks)

(6) In respect of the debenture;

(a) Identify the main audit matters to consider (10 marks)

(b) List the audit procedures you would perform. (4 marks)

(50 marks)

QUESTION TWO

BACKGROUND

Charles, Lukeness and Abraham are partners in an accounting firm called Clam Associates. They have been in business for over seven (7) years. Clam Associates has continued to grow organically and now has thirty (30) clients and fifteen (15) employees. Each partner has four (4) subordinates under their control and there are three (3) managers. Each manager can be assigned duties by any of the partners.

1. Charles is responsible for audit and forensic services. He holds CA-Zambia qualification and has ten (10) years experience mainly in auditing. Clam Associates currently has fifteen (15) audit clients. Charles has a ZiCA full audit practicing certificate.

2. Lukeness is responsible for accounts and secretarial duties. She holds a masters degree in finance & accounts and she is a member of the Institute of Chartered Secretaries & Administrators. She has five (5) years experience and has a ZiCA non-audit practicing certificate.

3. Abraham is responsible for consultancy services. He holds a degree in business administration and is an internationally recognised certified business strategist. Abraham's motivating presentation style is mainly responsible for increased demand for consultancy services. He has over thirty (30) years experience both locally and internationally.

You are one of the managers in Clam Associates. You have worked for Clam Associates for four (4) years. Before joining Clam Associates you had worked for seven (7) years as a senior auditor in the National Audit Office (Auditor General's office) in the Specialised Audits and Consultancy Directorate. You are currently responsible for the following assignments:

1. Planning the audit engagement of Sweet Buchi Ltd.
2. Bank substantive testing at Zan Ltd.
3. Review of potential new audit client, Small Mining Ltd.
4. Reviewing draft audit report on Close Ltd's financial statements.
5. Investigating alleged bribery payments in Pinkie's restaurant.

Clam Associates has not been advertising their services. However, at a recently held management meeting it was unanimously agreed to take out a full page advertisement one week and run series of smaller advertisements in the future. It is a few months to three (3) parliamentary by-elections and management has decided that in order to ensure a wider

coverage, the advertisement should be placed in a popular local newspaper, which mainly deals with politics. The firm's letterhead does not include the names of the partners.

PLANNING THE AUDIT ENGAGEMENT OF SWEET BUCHI LTD

Sweet Buchi Ltd is a member of the Zambia Honey Partnership Platform (ZHPP). It was formed four (4) years ago by two (2) retired scientists who are advocates of preserving natural resources. It is mainly involved in bee-keeping and honey processing. In the first year, the Government, through the Ministry of Commerce, Trade and Industry helped Sweet Buchi Ltd through capacity building, market promotion and establishment of bulking centres. The Government has a policy of supporting apiculture to create jobs and foster industrialisation strategy.

In response to the recent decreases in customer demand for honey being experienced by the company, Sweet Buchi Ltd is seeking additional finance in order to improve the management of the linkages regarding the various activities performed by the company. Customer complaints regarding the quality of the honey and poor employee attitudes have been increasing. A number of customers have switched to competitors. Employees appear demotivated and highly disorganised. The storage and processing buildings are generally dirty and congested. The company keeps high levels of inventory. The company operations are manual and marketing is non-existent. The company uses two old trucks to deliver honey to customers.

Management is aware that lack of finance is now threatening the going concern status of the company. Charles has informed you that management of Sweet Buchi Ltd wants Clam Associates to carry out a position audit and negotiate appropriate financing with their bank or other providers of finance.

BANK SUBSTANTIVE TESTING ZAN LTD

You are now auditing the company's bank balance of K32 million at 30 September 2018. Zan Ltd has three (3) bank accounts with different commercial banks. A junior member of the audit team has been checking on one of the bank accounts by reconciling the bank statement balance to the cashbook book balance. He has successfully prepared the bank reconciliation statement but is unable to carry out further audit procedures. He has asked for your assistance and your suggestions on the audit procedures which should be carried out on the reconciling items.

REVIEW OF POTENTIAL NEW AUDIT CLIENT, SMALL MINING LTD.

Clam Associates has recently been approached by a potential new audit client, Small Mining Ltd. Your firm is keen to take the appointment and is currently carrying out client acceptance procedures. Small Mining Ltd was recently incorporated by a former Musician, with its main trade being the mining and retailing of copper.

REVIEWING DRAFT AUDIT REPORT ON CLOSE LTD'S FINANCIAL STATEMENTS

Charles has asked you to review the following extract of the Key Audit Matters (KAMs) paragraph in the draft audit report on Close Ltd's financial statements:

'Key audit matters are those matters that were of most significance in our audit of the financial statements of the current period and previous period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters. We could have modified our opinion if it was not for the Managing Director's advice.

During the past two years, we have held serious discussions on suspected money laundering activities in Close Ltd. The company engaged a forensic expert who has issued a draft report which contains evidence regarding some of the directors' involvement.

Our procedures included, among others, the following:

- We obtained and reviewed the experts draft report
- We engaged our internal experts to review the report.
- Assessing the methodologies used and appropriateness of key assumptions used by the expert in his work

We found the key assumptions used to be reasonable, but we are worried about the impact on the company's going concern. This issue is not disclosed in the financial statements.'

Some directors have opposed including the KAM paragraph in the audit report. The KAM paragraph has been included before the opinion paragraph because of the concerns regarding going concern.

INVESTIGATING ALLEGED BRIBERY PAYMENTS IN PINKIE'S RESTAURANT

Pinkie's restaurant has recently won a lucrative contract to supply packed lunch and drinks to delegates to the 9th Conference on Human rights. The Conference is funded jointly by the Zambian government and foreign donors. As with all such arrangements, foreign donors require that all aspects of the conference, from the tendering process to final delivery, are scrupulously transparent and open to scrutiny.

During the tendering process, the owner of Pinkie Restaurant was frequently seen entertaining senior government officials at the Restaurant. There are also rumours of large cash payments having been made. Comments have been made on social media, seemingly by rival competitors that suggest that Pinkie Restaurant offered bribes in order to secure the contract.

SECTION A

(1) Using the details given in the scenarios:

(a) Identify and explain eight (8) ethical and other professional issues raised by the various assignments, and (12 marks)

(b) For each issue, recommend what action, if any, Clam Associates should now take. (8 marks)

(2) Using an appropriate model, carry out a position audit for Sweet Buchi Ltd, and advise management how this will help to determine why customer demand is decreasing. (12 marks)

(3) Using the details given on Zan Ltd, assist the junior auditor by:

(a) Describing the possible risks which may be revealed by the bank reconciliation statement. (8 marks)

(b) Describe the audit procedures you will carry out on the reconciling items. (10 marks)

[Total: 50 marks]

SECTION B

(4) Explain:

(a) The nature of quality control procedures appropriate to Small Mining Ltd audit. (17 marks)

(b) Discuss how 'big data' and 'data analytics' could assist in Small Mining Ltd audit. (8 marks)

(5) Using the information given in respect of the draft Key Audit Matters (KAMs) paragraph for Close Ltd:

(a) State the errors in the draft. (5 marks)

(b) Discuss the implications if the directors refuse to include the Key Audit Matters (KAMs) paragraph in the final audit report. (2 marks)

(6) Describe:

(a) The main responsibilities of a professional accountant in a forensic investigation compared to a statutory financial statement audit. (4 marks)

(b) Any seven (7) key stages of a forensic investigation. (7 marks)

(c) Recommend seven (7) suitable procedures to be used in performing a forensic investigation on the alleged bribery payments made by Pinkie's restaurant. (7 marks)

(50 marks)

END OF PAPER

SOLUTIONS AND MARKING KEY

SOLUTION ONE

SECTION A

(1) Matters to consider before accepting appointment and ethical threats

(a) Matters to consider before accepting appointment

The matters to consider before Mwape & Co. accepts appointment include:

- Ensure that there are no ethical issues which are a barrier to accepting appointment
- Ensure that the auditor is professionally qualified to act and that there are no legal or technical barriers
- Ensure that existing resources are adequate in terms of staff, technical expertise and time
- Obtain references for the directors if they are not known personally to the audit firm
- Consult the previous auditors to ensure that there are not any reasons behind the vacancy which the new auditors ought to know. This is also a courtesy to the previous auditors

[Award up to 1 mark for each valid matter - Maximum 4 marks]

(b) Ethical threats

These include:

Threats	Explanations
1. Partners want to use this chance to penetrate the lucrative pharmaceutical industry at all costs.	This self interest threat could create bias and therefore affect the auditor’s judgement.
2. The Chairman is a senior government official.	This makes him a politically exposed person (PEP). This increases the reputational risk for Mwape & Co. as there will be more publicity if something goes wrong.
3. The Audit Manager is a former classmate to the FD.	This familiarity threat could create bias and therefore affect the auditor’s judgement. Both of them are senior in their respective organisations and any onlooker would perceive

	independence to be threatened.
4. Time pressure	This intimidation threat will mean the audit team may feel under pressure not to perform a thorough audit in order to comply with the request.
5. Mwape & Co. will provide non-audit services in addition to the statutory audit.	This represents a self review threat. Mwape & Co. may ignore or overlook their own errors when auditing the financial statements. The extent of the threat will depend on the specific nature of the services and in particular how any matters worked on will be reflected in the financial statements.
6. The Engagement Partner's auntie is a director at Ubumi Pharmaceuticals Ltd.	This would give rise to a familiarity threat which could create bias and therefore affect the auditor's judgement.
7. Availability of staff.	It may be possible that all of the staff with the necessary competencies are occupied.

[Award up to 1 mark for each ethical threat – Maximum 5 marks]

(2) Money laundering procedures before and after acceptance

Mwape & Co. should carry out client identification procedures **before** accepting appointment, such as:

- Obtaining evidence that the client exists, such as looking at the certificate of incorporation and establishing the identities of the owner and all directors by taking copies of passports or driving licences
- Conducting a Companies House search on Ubumi Pharmaceuticals Ltd
- Confirming the registered address (by headed paper)
- Obtaining a list of shareholders and directors

Mwape & Co. should obtain 'Know your client' information **after** accepting appointment, such as:

- The expected patterns of Ubumi Pharmaceuticals Ltd’s business, are there peak seasons for selling drugs and other medical supplies
- The business model of the client (in this instance the CEO is effectively also the Chairman – does he own any other companies and what activities do they have?)
- The source of the clients funds (is the owner the only investor, or are there others, does the company also have debt finance and, if so, from whom?)

The firm should include a paragraph about money laundering responsibilities in the engagement letter.

[Award up to 1 mark for each money laundering procedure - Maximum 7 marks]

(3) Risks

(a) Main audit risks

Main audit risks	Explanations
1. Nature of industry.	The pharmaceutical industry is an inherently risky industry since it involves people’s lives. It is heavily controlled business where there is a vast amount of legislation which must be complied with. There is a risk that the business will fail to meet the required standards and may be fined as a result. This high regulation increases the overall audit risk associated with the assignment. Various items in the financial statements could be affected by this inherent risk. This industry is subject to public scrutiny due to its impact on people and this could ultimately lead to going concern issues.
2. Ubumi Pharmaceuticals Ltd is a new audit client.	This is a detection risk. Mwape & Co. may lack detailed knowledge of Ubumi Pharmaceuticals Ltd’s operations and as a result overlook material errors in the financial statements.
3. The date is 22 June 2018	Mwape & Co. has been approached barely one

	(1) week before the year end. There is a relatively short period of time to plan the audit effectively. This may lead to the selection of inappropriate procedures which do not detect all material misstatements.
4. Inability to obtain sufficient appropriate audit evidence.	Management considers some documents to be highly sensitive and is not willing to make these available to Mwape & Co. since they contain trade secrets.
5. Inventory sold is drugs and other medical supplies.	These types of products are susceptible to misappropriation. There is an increased risk that inventory is stolen and therefore overstated in the financial statements.
6. On-line business is relatively new.	As a new business, there is a risk that the records and systems have not initially been set up correctly. This may create errors in the figures relating to the on line part of the business. In addition, if the sales are made in foreign currencies then there is a risk that the computer may not be able to handle these sales (e.g. it could miscalculate foreign currency prices).
7. Audited financial statements required by 18 August 2018.	Ubumi Pharmaceuticals Ltd requires the audited financial statements for the meeting with the bank after the year end. There is a risk that the directors may manipulate the accounts in order to present acceptable results to the bank.
8. Poor controls.	There is likely to be little, if any, segregation of duties. Management may have a 'hands on', authoritarian style. This raises the chance of management disregard for, and override of,

	controls resulting in an increased opportunity for fraud or management decisions being made on inaccurate financial information.
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[Award ½ marks for each identified main audit risk (Maximum 4 marks) and up to 1 mark for each correct explanation (Maximum 8 marks)]

(b) Business risks

Business risks	Explanations
1. Dependence on government. Ubumi Pharmaceuticals Ltd is overly reliant on the government for business.	Government is significantly larger than Ubumi Pharmaceuticals Ltd and therefore is likely to have more bargaining power. This will affect receivables and sales, and could impact upon going concern.
2. Employing more Chinese than Zambians.	Government and the community in general may question this. Government could decide to withdraw business. Most countries prefer more locals relative to foreigners.
3. Heavy reliance on the overdraft facility.	Ubumi Pharmaceuticals Ltd makes use of the bank overdraft facility and a falling revenue will exacerbate any cash flow problems the company has. It is also possible that the company could be overtrading.
4. Non-compliance with health & safety regulations.	The pharmaceutical industry has stringent health and safety conditions and could be denied an operating licence if the requirements are not met.
5. Lack of national quality control laboratories.	There is a risk that Ubumi Pharmaceuticals Ltd's quality of the products could be compromised in an effort to reduce costs. Lower quality products could tarnish the image of Ubumi Pharmaceuticals Ltd, which is so

	crucial for survival.
6. Outstanding statutory obligations.	This could result in serious penalties and interests, including fines.
7. Delayed government payments.	This can also affect operations. Pharmaceutical companies spent significantly on research and development. If it cannot invest in this area, there is a risk that the business is no longer viable.
8. Lack of corporate social responsibility.	Ubumi Pharmaceuticals Ltd could be subject to negative publicity. Sales could fall as a consequence of the bad publicity.
9. Wholly owned by one person.	Domination by a single individual can impact on going concern. This may contribute to difficulties in raising finances. The financial institution is demanding personal guarantees before it can lead to Ubumi Pharmaceuticals Ltd.
10. Chief Executive Officer (CEO) and acting Chairman of the board.	It likely that the CEO has unfettered powers of decision which is contrary to best corporate governance practice.
11. Importation of raw materials.	This exposes Ubumi Pharmaceuticals Ltd to the risk of fluctuations in exchange rates.
12. On-line sales.	On-line sales now account for 35%. There is a risk that the system may be overwhelmed by the increase in sales volume, which could lead to difficulties fulfilling orders and potential damage to company's reputation. Since this is a new system, there is a risk of system failure, which could also result in unfulfilled orders.

[Award ½ marks for each identified main business risk (Maximum 6 marks) and up to 1 mark for each correct explanation (Maximum 12 marks)]

(4) Briefing notes

To: Audit Partner

From: Audit Manager

Re: Benefits of accrual of IPSAS

Introduction

These briefing notes contain a list the benefits of accruals of International Public Sector Accounting Standards (IPSAS).

Benefits of accruals of International Public Sector Accounting Standards (IPSAS)

These include:

1. Increased transparency and improved internal controls.
2. Judicious management of revenue and expenses.
3. Improved government decision making.
4. Improved financial and resource stewardship.
5. Better management staff related liabilities.
6. Evaluation of the country's debt.

[Award ½ marks for each benefit – Maximum 3 marks]

Impact on Ubumi Pharmaceutical Ltd

Ubumi Pharmaceutical Ltd currently use the International Financial Reporting which is based on accruals. This means the shift to accrual of IPSAS will not have any significant impact.

[1 mark]

(Total: 50 marks)

SECTION B

(5) Possible risks of material financial statements misstatement and audit procedures

(a) Possible risks of material financial statements misstatement

Risks of material financial statements misstatements	Explanations
1. Revenue has increased by 22%.	There is a risk that sales have been deliberately overstated by the directors to show acceptable results to the bank. It is possible that cut-off could have been applied incorrectly especially for on-line sales. Ubumi Pharmaceuticals Ltd's on-line sales represent 35% of its revenue, a figure that should be even higher in future, when a full year's revenue will be included in the financial statements. There is a risk that IFRS 15 <i>Revenue from contracts with customers</i> 's requirements on when revenue should be recognised are not met. The inclusion of K32 million is incorrect.
2. Cost of sales increased by 45%.	This increase exceeds the rise in sales and therefore appears unusual. There is a risk that the current year closing inventory figure is understated, causing an overstatement in cost of sales. There is a risk that cut-off is incorrect. It is also possible that expenditure has been misclassified, e.g. expenditure that should have been capitalised have been included in the figure for cost of sales.
3. Gross profit margin has decreased 52%.	Business strategy and performance must be discussed with the directors. The lower margin

	could arise from genuine business factors including some relating to payables such as new suppliers charging higher prices increases in the cost of raw materials used by Ubumi Pharmaceuticals Ltd. These factors would have to be confirmed during the audit of payables.
3. Non-current assets have increased by 20%.	There is a risk that the carrying amounts are overstated. Under IAS 36 <i>Impairment of assets</i> , the directors at Ubumi Pharmaceutical Ltd should carry out an impairment review given that there are indicators that assets are impaired. If the carrying amount exceeds the recoverable amount (the higher of fair value less costs to sell and value in use), the assets should be impaired and the impairment loss recognised as an expense. Expenditure during the period could have been wrongly capitalised.
4. Inventory has decreased by 15%.	Sales has increased by 22% during the year and a decrease in inventory seems illogical. There is a risk that inventories are understated because of incorrect cut-off being applied to purchases and sales and the omission of inventory held by third parties. The inclusion of K32 million in the sales figure instead of inventory is also incorrect.
5. Long-term liabilities (Non-current liabilities) have increased by 22%.	One of the Loans is due within the next year and so should be shown as a current liability. The accounting treatment of the convertible debenture does not comply with IFRS 7 and IFRS 9.
6. Trade payables have increased by 95%.	There is a high risk of fraudulent activities

	taking place. The accounts clerk could have included ghost suppliers since no one authorises any changes.
7. Bank overdraft has increased by 390%.	The company is relatively new and growing at a fast rate (22% unaudited revenue increase). A growing company is likely to require cash funding to expand which may explain the increase in the overdraft and long-term liabilities. There is also the risk of overtrading where the company grows too quickly or aggressively and runs out of cash required to maintain its day to day liquidity. The going concern of Ubumi Pharmaceutical Ltd could be questionable.

[Award ½ marks for each identified possible material financial statements misstatement (Maximum 2 ½ marks) and up to 1 ½ marks for each correct explanation (Maximum 7 ½ marks)]

(b) Audit procedures

(i) Revenue

- Obtain a copy of the calculation of revenue recognised in the period
- Assess whether the basis of calculation is comparable with prior years
- Confirm that recognition criteria is in line with the IFRS 15 *Revenue from contracts with customers* requirements
- Compare dates on a sample of sales invoices with dates recorded in the sales ledger
- Vouch a sample of sales recorded to supporting documents e.g. sales invoices
- Perform analytical procedures, such as comparison with:
 - Related figures such as inventory and receivables
 - Prior year and budgets

- Similar industry information, e.g. comparison of receivables days with industry averages
- Review the order involving the K32 million and ensure accounting treatment is correct

[Award 1 mark for each correct procedure – Maximum 6 marks]

(ii) Non-current assets

- Obtain a breakdown of additions and cast to confirm arithmetical accuracy
- Agree the items on the breakdown to non-current asset register to confirm completeness
- For a sample of additions, agree the cost to the supplier invoice to confirm valuation
- Agree the addition of non-current to supplier invoices to verify that they are in the name of the company, in order to confirm rights and obligations
- Review the list of additions to identify any expenditure relating to repairs and maintenance rather than of a capital nature
- Review the board minutes for evidence of significant capital expenditure purchases being authorised by the board
- For a sample of additions recorded in the non-current asset register, physically verify them on the factory floor to confirm existence
- Discuss the need for an impairment review with management
- Consider whether the judgements made by management in the impairment review is reasonable in accordance with IAS 36 *Impairment of assets*.
- Obtain management's calculations of value in use and reperform calculation to ensure that it is mathematically correct

[Award 1 mark for each correct procedure – Maximum 6 marks]

(iii) Inventory

- Trace test counts to the detailed inventory listing
- Where inventory is held in third party locations, physically inspect this inventory or review confirmations received from the third party and match to the general ledger
- Confirm that any inventory held at third party locations is included in the year-end inventory figure by reviewing the inventory listing
- Obtain a copy of the inventory listing and agree the totals to the general ledger

- Vouch a sample of inventory items to suppliers' invoices to ensure it is correctly valued
- Make inquiries of management to ascertain any slow-moving or obsolete inventory that should be written down
- Compare inventory days to the previous year and industry average
- Obtain a copy of the inventory listing and cast it, and test the mathematical extensions of quantity multiplied by price
- Review the inventory listing to ensure that inventory has been properly classified between raw materials, work-in-progress and finished goods
- Confirm cut-off by using details of the last serial number of goods inwards and outwards notes and details of movements during the count

[Award 1 mark for each correct procedure – Maximum 7 marks]

(iv) Trade payables and accruals

- Obtain a listing of trade accounts payables and agree the total to the general ledger by casting and cross-casting
- Test for ghost suppliers by inquiries of management on how these are identified and examining post year-end transactions
- Obtain selected suppliers' statements and reconcile these to relevant suppliers' accounts
- Examine unmatched purchase orders and supplier invoices for any unrecorded liabilities
- Perform a confirmation of accounts payables for a sample
- Compare the current year balances for trade accounts payables and accruals to the previous year
- Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing to amounts owed to these suppliers in the previous year
- Vouch a sample of balances to supporting documentation such as purchase orders and suppliers' invoices to obtain audit evidence regarding rights and obligations
- For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct
- For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off
- Recalculate the mathematical accuracy of a sample of suppliers' invoices to confirm the amounts are correct

- Reperform calculations of statutory deductions to confirm whether correct
- For a sample of vouchers, inspect supporting documentation such as authorised purchase orders
- Review the trade accounts payables listing to identify any large debits (which should be reclassified as receivables or deposits) or long-term liabilities which should be disclosed separately

[Award 1 mark for each correct procedure – Maximum 7 marks]

(6) Debenture

(a) Matters to consider

Materiality

- The debenture value of K4 million is 3% of total assets and is therefore material
- The interest of K480,000 for the first year is 7% of the profit before tax and is also material

Risk

- There is a risk of misclassification
- The liability component has been overstated while the equity has been understated
- The interest may have been calculated incorrectly

Accounting treatment

- The treatment of the debenture does not comply with IFRS 9
- It should be treated as a hybrid instrument, split into its equity and liability components
- The liability component should be calculated as the discounted present value of the cash flows of the debenture
- The remainder of the proceeds should be reclassified as equity

Impact on audit report

- The management of Ubumi Pharmaceuticals Ltd could be requested that the accounting treatment be adjusted in accordance with IFRS 9 and IFRS 7.

- If no adjustments are made the audit report would be qualified on the basis of a material misstatement (except for) in relation to non-compliance with IFRS 9 and IFRS 7.

[Award 1 mark for each correct matter on materiality (Maximum 2 marks), 1 mark for each correct point on risk (Maximum 2 marks), 1 mark for each correct point on accounting treatment (Maximum 4 marks) and 1 mark for each correct point on audit report (Maximum 2 marks)]

(b) Audit procedures

- Check the nominal interest rate and conversion terms to the debenture deed
- Agree amount of initial proceeds and interest payment to cash book and bank statement
- Obtain schedule calculating the fair value of the liability at the date of issue and confirm that an appropriate discount rate has been used (assuming revised treatment adopted)
- Confirm whether disclosures are adequate and in accordance with IFRS 9 *Financial instruments* and IFRS 7 *Financial instruments: disclosure*

[Award 1 mark for each correct audit procedure – Maximum 4 marks]

(Total: 50 marks)

SOLUTIONS AND MARKING KEY

SOLUTION TWO

SECTION A

(1) Ethical and professional issues and recommendations

Ethical and professional issues	Explanations	Recommendations
1. Organisational structure.	<p>The current organisational structure has two main flaws, namely:</p> <ul style="list-style-type: none">• The reporting lines for managers are not clear• There is no one responsibility for quality• There are no supervisors	Redesign the organisational structure so that the deficiencies identified are addressed.
2. Competence in forensic assignments.	There is no competent person with appropriate forensic skills and knowledge. Mere Knowledge in accountancy and audit may not be sufficient to effectively carry out forensic assignments.	Additional education and development is required in order to acquire the necessary skills and capabilities.
3. Advertising in a local newspaper which mainly deals in politics.	Advertising in a local newspaper which mainly deals in politics may be misunderstood and the public could start speculating on the partners' political affiliation.	The firm should use a neutral newspaper that do not reflect adversely on the partners and the accountancy profession.
4. The firm's letterhead does	This is contrary to the	The firm must adhere to the

<p>not include the names of the partners.</p>	<p>requirements of the Accountants Act 2008. The Accountants Act 2008 states that a chartered accountant may not practice under a firm name or title unless on every letterhead bearing the firm name or title there appears a clear indication of every partner who is a chartered accountant (section 28 (b)).</p>	<p>provisions of the Accountants Act 2008 as a matter of urgency.</p>
<p>5. Negotiating with banks or other providers of finance in the case of Sweet Buchi Ltd.</p>	<p>Negotiating financing arrangements on behalf of an audit client creates an advocacy threat to audit objectivity, as the firm is representing the client's interests to a third party. There may be self-review threat if the partner has been in any way involved with the accounting treatment of these arrangements.</p>	<p>Safeguards should be applied to reduce these threats to an acceptable level. These would include ensuring that the partner and any other staff members involved in giving advice are not involved in the audit. If an auditor's expert is required in relation to financing arrangements then the partner should not be used in this capacity.</p>
<p>6. Incompetence of junior member of the audit team in the case of Zan Ltd</p>	<p>Bank is a sensitive issue and should not be given to a junior to audit. The junior is unlikely to exercise the required professional scepticism.</p>	<p>The junior auditor should be replaced with a competent person and a detailed review of the work carried out by the junior should be carried out by an independent senior auditor.</p>
<p>7. Knowledge of mining and retailing of copper</p>	<p>Clam Associates may not have the required competences to</p>	<p>Clam should consider engaging an expert to assist.</p>

	perform the audit up to the required standards.	
8. Errors in the Key Audit Matters (KAM) paragraph	The number of errors may be in indication that the firm does not have appropriately qualified manpower.	A detailed review of the audit must be carried out by an experienced senior auditor.
9. Reputational risks regarding Pinkie's restaurant	There is a risk that the work may not be performed appropriately.	If Clam Associates does not have appropriately qualified personnel, it may decline or outsource this assignment.

[Award ½ marks for identification of each ethical or professional issue (Maximum 4 marks), 1 mark for each valid explanation (Maximum 8 marks), and 1 mark for each appropriate recommended action (Maximum 8 marks)]

(2) Value chain analysis

Professor Michael Porter developed the value chain to help identify which activities within the firm were contributing to a competitive advantage and which were not. The approach involves breaking down the firm into five (5) 'primary' and four (4) 'support or secondary' activities, and then looking at each to see if they give a cost advantage or quality advantage.

Sweet Buchi Ltd's management must consider all those activities it undertakes, from the moment of initial purchase of raw materials and other inputs, to the moment of final receipt of payment from the customer. Value chain analysis looks at of the processes that make up the chain of production or service activity, and how the company compares in that respect to its competitors.

To review the decrease in demand and switching of customers to competitors, a clear statement of the company's objectives and what they are trying to achieve needs to be drawn up by the management team. The management accountant or any other knowledgeable senior person will then analyse the primary and secondary activities in the company's value chain and identify areas that are causing the greatest level of concern.

Primary activities

- Inbound logistics – are the activities concerned with handling the inputs. From the company's point of view the analysis will cover:
 - Receiving materials
 - Storing materials
 - Handling materials

The high level of inventory indicated in the scenario may indicate a weakness and the rationale for this should be investigated.
- Operations – concerned with the transformation of the inputs and will look in detail at:
 - How the company compares with competitors; there may be need to determine what they are doing differently and what they must do to improve the service.
 - The calibre of the workforce
- Outbound logistics – are concerned with the finished product and will look in detail at:
 - Storing
 - Distributing
 - Delivering

The company outsourcing delivering could give a cost advantage.

- Marketing and sales – are responsible for communication with the customers e.g. advertising and promotion, sponsorship of a sports celebrity could enhance the image of the product. The analysis should assess what attracts the customers and why an increasing number believe that product is not living up to their expectations.
- Service – covers all of the activities that occur after sale e.g. friendly approach to returns could give the company a perceived quality advantage. A customer satisfaction survey could identify a number of criticisms of after-sales services offered by the company and could one of the reasons for decreased customer demand.

Secondary activities

- Firm infrastructure – which supports the entire value chain, includes the systems of planning, finance, quality control and estate management. It focuses on how the firm is organised. Sweet Buchi Ltd is highly disorganised.
- Technology development – how the firm uses technology. For example, the latest computer –controlled machinery gives greater flexibility to tailor products to individual customer specifications. This covers not just machines and processes, but also know-how. Improved technology development may be employed in producing the honey. Technology may also be used in undertaking marketing research into the attractiveness of types of products to prospective customers.
- Human resources development – how people contribute to competitive advantage. For example, employing expert buyers could enable the company to purchase better raw materials than competitors.
- Procurement – is the process of purchasing inputs. Areas that will be analysed include the efficiency and adequacy of the supplies and the level of administrative support provided to the members of staff. Use of e-procurement websites could assist in identify a broader range of suppliers and this could result in significant cost savings.

It is vital that the linkages between the different elements of a value chain are considered. Firstly this is to ensure consistency – for example, a differentiator will want to ensure that any cost advantages within the value chain do not compromise overall quality. Secondly it may be that through linking separate activities more effectively than competitors, a firm can gain a competitive advantage.

It is also important to note that an organisation's value chain does not exist in isolation. There will be direct links between the inbound logistics of the firm and the outbound logistics of its suppliers, for example. An understanding of the value system and how the organisation's value chain fits in to it will therefore aid in the strategic planning process.

If the organisation is successful, it will create a margin. This margin is the excess that the customer is prepared to pay over the cost to the firm of obtaining resource inputs and providing value activities. It represents the value created by the value activities themselves and the linkages between them.

To improve customer retention, targeted emails, newsletters and 'existing customer only' special offers could be sent out on a regular basis (after sales).

Negotiate with a contract with one single integrated logistics company to carry out both its inbound and outbound logistics.

[Award 1 mark for explanation of each activity (Maximum 9 marks) and 1 mark for each correct recommendation (Maximum 3 marks)]

(3) Zan Ltd

(a) Possible risks

The main risks which may be revealed by the bank reconciliation statement are window dressing and teeming and lading fraud.

Care must be taken to ensure that there is no window dressing, by auditing cut-off carefully. Window dressing in this context is usually manifested as an attempt to overstate the liquidity of the company by:

- Keeping the cash book open to take credit for remittances actually received after the year-end, thus enhancing the balance at bank and reducing receivables.
- Recording cheques paid in the period under review which are not actually dispatched until after the year-end, thus decreasing the balance at bank and reducing liabilities.

A combination of the two points above can contrive to present an artificially healthy looking current ratio. With the possibility of the first point above in mind, where lodgements have not been cleared by the bank until the new period, the auditors should examine the paying-in slip to ensure that the amounts were actually paid into the bank on or before the period-end date.

As regards point two above, where there appears to be a particularly large number of outstanding cheques at the year-end, the auditors should check whether these were cleared within a reasonable time in the new period. If not, this may indicate that dispatch occurred after the year-end.

A large number of old outstanding lodgements could indicate significant levels of teeming and lading fraud. This usually happens where supervision is poor. The Cashier would take part of cash takings and use it for his or her personal business and may take time to return the funds taken.

[Award 1 mark for each relevant point on window dressing (Maximum 5 marks) and 1 mark for each relevant point on teeming and lading fraud (Maximum 3 marks)]

(b) Audit procedures on reconciling items

- Trace cheques shown as outstanding from the bank reconciliation statement to the cash book prior to the year-end and to the after-date bank statements and obtain explanations for any large or unusual items not cleared at the time of audit
- Compare cash book(s) and bank statements in detail for the last month 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 cash book for which there are no corresponding entries in the bank statement and vice versa by discussion with finance staff
- Verify by inspecting paying-in slips that uncleared bankings are paid in prior to the year-end
- Examine all lodgements in respect of which payment has been refused by the bank; ensure that they are cleared on representation or that other appropriate steps have been taken to effect recovery of the amount due
- Inspect the cashbook and bank statements before and after the year-end for exceptional entries or transfers which have a material effect on the balance shown in-hand

[Award up to 2 marks for each audit procedure – Maximum 10 marks]

(Total: 50 marks)

SECTION B

(4) Nature of quality control procedures, and 'big data' and 'data analytic'

(a) Nature of quality control procedures

The requirements concerning quality control on individual audits are found in ISA 220 *Quality control for an audit of financial statements*. The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

- The audit complies with professional standards and applicable legal and regulatory requirements
- The auditor's report issued is appropriate in the circumstances

The burden of this falls on the audit engagement partner, who is responsible for the audit and the ultimate conclusion.

(Award 1 mark for each relevant point – Maximum 3 marks)

The quality control procedures include:

1. Leadership responsibilities – the engagement partner is required to set an example with regard to the importance of quality. **1 mark**
2. Ethical requirements – throughout the audit engagement, the engagement partner shall remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. **2 marks**
3. Acceptance/continuance of client relationships and specific audit engagements – if the engagement partner obtains information that would have caused him to decline the audit in the first place he should communicate that information to the firm so that swift action may be taken. He must document conclusions reached about accepting and continuing the audit.

2 marks

4. Assignment of engagement teams – the audit engagement partner must ensure that the team is appropriately qualified and experienced as a unit. He should ensure that he assigns staff of sufficient capabilities, competence and time to individual assignments so that he will be able to issue an appropriate report. **2 marks**
5. Engagement performance – the partner should take steps to ensure the engagement is performed correctly, that is, in accordance with standards and guidance. Firms often produce a manual of standard engagement procedures to give to all staff so that they know the standards

they are working towards. These may be electronic. Ensuring good engagement performance involves a number of issues:

- Direction – the engagement partner is required to hold a meeting with the audit team to discuss the audit, in particular the risks associated with the audit. ISA 220 suggests that direction includes informing members of the engagement team of a number of issues e.g. need to maintain objectivity and professional scepticism, risk-related issues, problems that may arise etc.
- Supervision – the audit is supervised overall by the engagement partner, but more practical supervision is given within the audit team by senior staff to more junior staff. It includes tracking the progress of the audit engagement, addressing significant issues arising during the audit engagement and modifying the planned approach appropriately
- Review – this includes consideration of whether the work has been performed in accordance with professional standards and regulatory and legal requirements, significant matters have been raised for further consideration, the evidence obtained is sufficient and appropriate to support the auditor’s report etc.
- Consultation – the partner is responsible for ensuring that if difficult or contentious matters arise the team takes appropriate consultation on the matters and that such matters and conclusions are properly recorded.
- Resolution of disputes – if differences of opinion arise between the engagement partner and the team, or between the engagement partner and the quality control reviewer, these differences should be resolved according to the firm’s policy for such differences of opinion

(Award 1 mark for each relevant point – Maximum 6 marks)

6. Monitoring – the audit engagement partner is required to consider the results of monitoring of the firm’s quality control systems and consider whether they have any impact on the specific audit he is conducting. **1 mark**

[Award marks as indicated – Maximum 17 marks]

(b) Big data is a **broader term** for the larger, more complex datasets that can be held and interpreted by **modern computers**. The term refers to a **qualitative shift** in the amount of data that is available in comparison with the past.

Data analytics is the **examination** of data to try to identify patterns, trends or correlations. As the quantity of data has increased, it has become more and more necessary to evolve ways of processing and **making sense** of it.

It has been said that there are **3 Vs of big data**: there are larger Volumes of data, at faster Velocity, with more Variety. Some add a 4th V – Veracity – which refers to widespread uncertainties over the reliability of data.

The **general idea** is that having so much more data around allows a surprising number of new things to be done. One example of this is Google Maps, which uses 'big data' to help predict traffic flows. Big data also has **implications for auditors**. Recent advances in IT make it increasingly possible for auditors to **examine a complete data set** – 100% of the transactions – and to represent trends graphically, almost instantly. Some have claimed that these techniques may bring about a **long-term revolution in audit approaches**, since they enable auditors to focus on 100% of the transactions rather than just a sample (as auditing standards assume).

This raises a question not only about **sampling**, but about the whole approach of placing reliance on an entity's **internal controls**. It is a basic assumption of the concept of an audit contained in ISAs that it is impractical to test 100% of transactions. It is because of this that the audit is considered a **risk-management exercise**, in which the auditor obtains evidence of the effectiveness of the entity's own internal controls, as a way of assessing the risk of there being a material misstatement. But if the auditor can now test 100% of the transactions, why worry about controls at all?

Even if nothing else, the auditor relying on data analytics would still have to **understand** the system which produced the data being analysed. The auditor would also need to understand and test how data got into the system in the first place: for example, a data set might show that a certain amount of cash has been received by an entity, but the only way you can really tell whether this is reliable is by testing the actual cash receipts. Data analytics is unlikely to help here.

It appears likely that, even if they do not eliminate controls testing *in total*, data analytics will lead to a **reconsideration of how controls are tested**, particularly controls in an IT environment. Data analytics are also likely to lead to an **improvement in audit quality**, although this is of course dependant on data analytics processes being implemented

intelligently. Some more **practical examples** of how data analytics might help auditors (ICAEW *Data analytics for external auditors* : p5) are:

- Analyses of revenue trends into product or region
- Matches of orders to cash and of purchases to payments
- Three-way matches between purchases/sales orders, goods received/dispatched documentation and invoices
- Testing of user codes for appropriateness of segregation of duties, and for whether any inappropriate combinations of users have been involved in processing transactions.

[Award 1 mark for each relevant point – Maximum 8 marks]

(5) Draft Key Audit Matters (KAM)

(a) Errors in the draft KAM paragraph

- No headings
- Included before the opinion
- KAM not relating to matter already included within the financial statements
- Included instead of modified opinion
- Mention of 'use of professional judgement' is missing
- Use of previous period
- Including suspicions of money laundering as a KAM would be tipping off and is prohibited
- Unprofessional language (e.g. worried)
- Going concern issues should not be included as a KAM

[Award 1 mark for each error – Maximum 5 marks]

(b) KAMs are part of every listed company auditor's report, and can be included by other auditors if needed. Hence, Close Ltd can choose whether to include the KAM or not.

[Award 1 mark for each relevant point – Maximum 2 marks]

(6) Forensic investigation

(a) Main responsibilities of a professional accountant in a forensic investigation compared to an statutory financial statement audit

When undertaking a fraud investigation the forensic auditor's role will be determined by the specific terms of the engagement agreed between the forensic auditor and the client. Normally this will refer specifically to identification of whether fraud have occurred. Although many of the procedures involved will be similar to the audit of financial statements, their purpose will be different and therefore the approach will differ. For example, materiality will be viewed differently and documentation will be reviewed more critically than on an audit. In addition the forensic auditor should be guided by suspicion in a potentially adversarial environment.

[Award 1 mark for each relevant point – Maximum 4 marks]

(b) Key stages of a forensic investigation

These include:

- Define the scope and objectives of the investigation. This includes establishing the truth of any allegations
- Understand the organisation through reviewing financial information and any media coverage. The forensic auditor also needs to understand the nature of the matter under investigation, and to understand the nature of fraud and the circumstances in which it occurs
- Take steps to secure and safeguard financial and other information. Information may be physical or digital and it is vital to ensure that information is not destroyed, corrupted or altered
- Inspect financial and other documents for evidence of 'red flags' that suggest bribery activity
- Use computer aided techniques to analyse data
- Interview staff and third parties with a view to obtain information or an admission of guilt. Forensic accountants need strong interviewing skills and a knowledge of what is legally admissible
- Draw conclusions which are unbiased, objective and supported by sufficient adequate evidence

- Report on the findings with reference to the original brief and recommend further action to be taken

[Award 1 mark for each key stage – Maximum 7 marks]

(c) Audit procedures

- Act with caution and discretion in establishing the facts required to substantiate the rumours
- Maintain an attitude of objectivity and professional scepticism throughout the investigation
- Establish the existence of CCTV/Other evidence
- Interview the board members and question them regarding any cash payments made to government officials prior to the signing of the contracts
- Use computer-assisted audit techniques to identify all cash payments
- Review the terms of the contract for any details of payments included in the contract, and understand the business rationale for any such payments
- Review any correspondence for any further information about the cash payments, e.g. specifically who the payments were discussed with
- Perform tests of control on the authorisation of cash payments to find out if these payments were known to anyone operating in a supervisory capacity
- Review expenditure on gifts and hospitality to ensure they conform with procedures and that proper declarations have been made

[Award 1 mark for each valid procedure – Maximum 7 marks]

(50 marks)

END OF SOLUTIONS AND MARKING KEY