

Advanced Audit, Assurance and Forensics

<p>The Meaning of Audit and Assurance Assurance involves a practitioner expressing a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation of a subject matter against criteria.</p> <p>Mnemonic for 5 Elements of an Assurance Engagement: CREST</p> <ul style="list-style-type: none"> • C – Criteria: The benchmarks used to evaluate the subject matter. • R – Report: A written assurance report containing the conclusion. • E – Evidence: Sufficient and appropriate evidence must be gathered. • S – Subject Matter: The specific data or information being prepared. • T – Three-Party Relationship: Practitioner, Responsible Party (Management), and Intended Users. <p>Key Concepts:</p> <ul style="list-style-type: none"> • Reasonable Assurance: A high but not absolute level of assurance (e.g., Statutory Audit). • Limited Assurance: A moderate level of assurance expressed in a negative form (e.g., "Nothing has come to our attention..."). • Audit-Related Services: Includes Reviews (limited assurance), Agreed-upon procedures (no assurance), and Compilations (no assurance, just preparing info). 	<p>Laws and Regulation on Audit and Assurance (Nigeria focus) Audit services are regulated to serve the public interest by ensuring practitioners operate within ethical boundaries and consistent standards.</p> <p>Appointment and Rotation (CAMA 2020 & FRC):</p> <ul style="list-style-type: none"> • Appointment: Auditors are generally appointed at each Annual General Meeting (AGM) to hold office until the next AGM. • Rotation: External audit firms must rotate after 10 years (15 for joint audits). • Cooling-off Period: A firm must wait 7 years before re-engagement. • Partner Rotation: The Engagement Partner must rotate every 5 years. <p>Mnemonic for Rights of Auditors: AIS</p> <ul style="list-style-type: none"> • A – Access: Right of access to books and records at all times. • I – Information: Right to all information and explanations from management. • S – Speak/Notice: Right to receive notice of and speak at shareholder meetings. <p>Ineligibility to Act as Auditor (Prohibitions):</p> <ul style="list-style-type: none"> • An officer or servant of the company. • A body corporate (except for LLPs under new rules). • A debtor to the company exceeding ₦500,000. • An employee/consultant involved in preparing financial records within the last year.
<p>Professional and Ethical Issues The auditor must maintain Independence of Mind (actual objectivity) and Independence in Appearance (avoiding facts that suggest compromise).</p> <p>Mnemonic for Fundamental Principles: IPOCB</p> <ul style="list-style-type: none"> • I – Integrity: Being straightforward and honest. • P – Professional Competence and Due Care: Maintaining skill and acting diligently. • O – Objectivity: No bias, conflict of interest, or undue influence. • C – Confidentiality: Respecting the privacy of information. • B – Professional Behaviour: Complying with laws and avoiding discrediting the profession. <p>Mnemonic for Threats to Independence: SAFIS</p> <ul style="list-style-type: none"> • S – Self-interest: Financial or other interests in a client. • A – Advocacy: Promoting a client's position (e.g., defending them in court). • F – Familiarity: Being too sympathetic due to close relationships. • I – Intimidation: Deterred from acting objectively by threats. • S – Self-review: Evaluating one's own previous work/judgement. 	<p>Professional Responsibility and Liability Audit Expectations Gap: The difference between what the public thinks auditors do and what they are actually required by law to do. It includes the Standards Gap, Performance Gap, and Liability Gap.</p> <p>Fraud vs. Error:</p> <ul style="list-style-type: none"> • Fraud: Intentional acts (falsification, misappropriation). • Error: Unintentional mistakes (clerical errors, oversights). • Responsibility: Primary responsibility for prevention/detection rests with management and those charged with governance. The auditor's role is to obtain reasonable assurance that the financial statements are free from material misstatement. <p>Legal Liability Strands:</p> <ul style="list-style-type: none"> • Criminal Liability: Prosecution for fraud, falsification, insider dealing, or acting without qualification. • Civil Liability: Claims for damages under Contract Law (only the client can sue) or Tort Law (third parties may sue for negligence). <p>Mnemonic for Proving Negligence (Tort): DBL</p> <ul style="list-style-type: none"> • D – Duty of Care: The auditor must owe a duty to the claimant. • B – Breach of Duty: The auditor failed to exercise reasonable skill and care. • L – Loss/Damage: A measurable financial loss resulted from that breach.
<p>Quality Management for Professional Firms (ISQM 1 & ISA 220) Quality management ensures the firm complies with professional standards and issues appropriate reports.</p> <p>Mnemonic for ISQM 1 Components: "G-R-E-A-R-E-M-I-D"</p> <ul style="list-style-type: none"> • G – Governance and Leadership: Promoting an internal culture where quality is essential, with ultimate responsibility resting with the CEO or managing board. • R – Risk Assessment Process: The firm must identify and assess risks that might militate against achieving quality objectives. • E – Ethical Requirements: Policies ensuring the firm and staff comply with principles like independence. • A – Acceptance and Continuance: Procedures to ensure the firm only takes on work it is competent to perform and where the client has integrity. 	<p>The Audit Approach The auditor selects a strategy based on the nature, size, and control environment of the client.</p> <p>Four Primary Audit Strategies:</p> <ol style="list-style-type: none"> 1. Business Risk Approach: A "top-down" method focusing on risks that might prevent the entity from achieving its objectives, which in turn affect the financial statements. 2. Systems-Based Approach: Focuses on the effectiveness of internal controls. If controls are strong, the auditor performs "tests of controls" and reduces substantive testing. 3. Substantive Testing Approach: Extensive testing of large numbers of transactions and balances; used when internal controls are weak or non-existent. 4. Statement of Financial Position Approach: Focuses on testing year-end balances on the theory that if opening and

<ul style="list-style-type: none"> • R – Resources: Ensuring sufficient personnel (Human), IT tools (Technological), and methodology (Intellectual) are available. • E – Engagement Performance: Responsibilities for direction, supervision, and review of the work. • M – Monitoring and Remediation: Periodic inspection of completed engagements to identify and correct systemic weaknesses. • I – Information and Communication: Maintaining reliable information flows internally and with external stakeholders. • D – Documentation: Evidence of the operation of each element of the quality system. <p>Engagement Partner’s Role (ISA 220): The partner is responsible for the overall quality of the specific audit, including directing the team and ensuring sufficient evidence supports the conclusion.</p>	<p>closing balances are correct, profit must be correct; often used for small entities.</p>
<p>Planning (ISA 300, 315, & 320) Planning ensures the audit is performed effectively and that attention is devoted to important areas.</p> <p>The Audit Strategy Memorandum: This document records key planning decisions, including assignment objectives, the audit timetable, staffing requirements, and the use of experts.</p> <p>The Audit Risk Model: Audit Risk (AR) = Inherent Risk (IR) × Control Risk (CR) × Detection Risk (DR).</p> <ul style="list-style-type: none"> • Inherent Risk: The susceptibility of an assertion to misstatement due to its nature (e.g., complex estimates). • Control Risk: The risk that a misstatement will not be prevented or detected by the entity’s internal controls. • Detection Risk: The risk that the auditor's procedures will fail to detect a misstatement. This is the only component the auditor can control by increasing or decreasing testing. <p>Internal Control Components (ISA 315): Management must implement five components:</p> <ol style="list-style-type: none"> 1. Control Environment: The "tone at the top" regarding integrity and ethical values. 2. Entity's Risk Assessment Process: How management identifies and manages business risks. 3. Information System: Methods for capturing and processing financial data. 4. Control Activities: Specific procedures like authorisation, segregation of duties, and physical controls. 5. Monitoring of Controls: Management's ongoing review of control operations. <p>Materiality (ISA 320): Information is material if its omission or misstatement could influence the economic decisions of users.</p> <ul style="list-style-type: none"> • Performance Materiality: A lower amount set to reduce the probability that the total of uncorrected/undetected misstatements exceeds overall materiality. • Typical Thresholds: Revenue (1%–2%), Pre-tax profit (5%–10%), or Total assets (1%–2%) 	<p>Audit Evidence (ISA 500 & 530) The auditor must design and perform audit procedures to obtain sufficient (quantity) and appropriate (quality: relevance and reliability) evidence to support the audit opinion.</p> <p>Mnemonic for Evidence Gathering Procedures: "AEIOU + R":</p> <ul style="list-style-type: none"> • A – Analytical Procedures: Evaluating financial data patterns/relationships. • E – External Confirmation: Obtaining a direct response from a third party (e.g., bank, debtor). • I – Inspection: Examining records, documents, or physical assets. • O – Observation: Watching a process being performed by others. • U – Inquiry: Seeking information from knowledgeable persons. • R – Recalculation/Reperformance: Checking mathematical accuracy or independently executing procedures. <p>Directional Testing (The "Double Entry" Approach):</p> <ul style="list-style-type: none"> • Test Debits (Assets/Expenses) for Overstatement: Direction of testing is backwards from the financial statements to source documents (vouching). • Test Credits (Liabilities/Income) for Understatement: Direction of testing is forwards from source documents to the financial statements (tracing for completeness).
<p>Evaluation and Review This final phase ensures that the evidence gathered supports the final audit opinion.</p> <p>Evaluation of Misstatements (ISA 450):</p> <ul style="list-style-type: none"> • Accumulate: The auditor must accumulate all misstatements identified during the audit, except those that are "clearly trivial". • Reassess: Reassess materiality if the total misstatements approach the initial threshold. • Correct: Request management to correct misstatements. If they refuse, the auditor must obtain reasons and evaluate the impact on the audit report. <p>Subsequent Events (ISA 560):</p> <ul style="list-style-type: none"> • Adjusting Events: Provide evidence of conditions that existed at the reporting date (e.g., settlement of a court case). Require adjustment of figures. • Non-adjusting Events: Conditions that arose after the reporting date (e.g., fire at a factory). Require disclosure if material. <p>Going Concern (ISA 570):</p> <ul style="list-style-type: none"> • The auditor must conclude whether a material uncertainty exists regarding the entity's ability to continue for at least 12 months from the reporting date. 	<p>Group Audits (ISA 600) A group audit involves auditing group financial statements that include financial information from one or more "components" (subsidiaries, associates, or branches).</p> <p>Key Roles:</p> <ul style="list-style-type: none"> • Group Engagement Team: Responsible for the overall group audit strategy, consolidation process, and the final group audit report. • Component Auditor: An auditor who performs work on a component at the request of the group team. <p>Scoping Significant Components (Mnemonic: "M-R"): A component is "significant" if it is:</p> <ul style="list-style-type: none"> • M – Material: Individually material in a group context (financial significance). • R – Risk: Identified as likely to include significant risks of material misstatement of the group financial statements. <p>Materiality in Groups:</p> <ul style="list-style-type: none"> • Group Materiality: Set for the group financial statements as a whole. • Component Materiality: Set by the group team for components where auditors will perform an audit. It must be lower than group materiality to reduce the risk of aggregated misstatements. <p>Joint Audits vs. Shared Audits:</p>

<ul style="list-style-type: none"> If a material uncertainty is adequately disclosed, the auditor issues an unmodified opinion but adds a "Material Uncertainty Related to Going Concern" paragraph. 	<ul style="list-style-type: none"> Joint Audit: Two or more firms are appointed to provide a joint opinion; both sign the audit report. Shared Audit: One firm has overall responsibility and signs the report, but uses work from other auditors.
<p>Assurance Services Assurance occurs when a practitioner expresses a conclusion designed to enhance the degree of confidence of intended users (other than the responsible party) about the outcome of the evaluation of a subject matter against criteria. Mnemonic for 5 Elements of an Assurance Engagement: "CREST"</p> <ul style="list-style-type: none"> C – Criteria: The benchmarks (e.g., IFRS, laws) used to evaluate the subject matter. R – Report: A written assurance report containing the practitioner’s conclusion. E – Evidence: Sufficient and appropriate evidence must be obtained to support the conclusion. S – Subject Matter: The data or information being reviewed (e.g., financial performance, ESG indicators). T – Three-Party Relationship: Practitioner (accountant), Responsible Party (management), and Intended Users (shareholders/stakeholders). <p>Levels of Assurance:</p> <ul style="list-style-type: none"> Reasonable Assurance: A high but not absolute level of assurance expressed in a positive form (e.g., "In our opinion, the statements give a true and fair view"). Limited Assurance: A moderate level of assurance expressed in a negative form (e.g., "Nothing has come to our attention that causes us to believe..."). <p>Specialised Engagements:</p> <ul style="list-style-type: none"> Value for Money (VFM) Audits: Assessing the "3 Es": Economy (doing it cheaply), Efficiency (doing it well), and Effectiveness (doing the right thing). Prospective Financial Information (PFI): Includes Forecasts (best-estimate assumptions) and Projections (hypothetical assumptions). Sustainability Assurance (ISSA 5000): Independent review of environmental, social, and governance (ESG) performance. 	<p>Audit-related Services These services do not provide a high level of assurance and are regulated by International Standards on Related Services (ISRS). Mnemonic for Audit-Related Services: "RAC"</p> <ul style="list-style-type: none"> R – Reviews (ISRE 2400/2410): Provides limited assurance through inquiry and analytical procedures. Often used for interim financial information. A – Agreed-Upon Procedures (ISRS 4400): The client specifies the procedures. The accountant provides a report on factual findings with no assurance. C – Compilations (ISRS 4410): The practitioner uses accounting expertise to prepare/collect information (e.g., financial statements for a small entity). No assurance is provided.
<p>Internal Audit and Outsourcing Internal Audit is an appraisal system established by management to review accounting and internal control systems as a service to the entity. Internal vs. External Audit:</p> <ul style="list-style-type: none"> Internal: Appointed by management; reports to management/audit committee; <i>focuses on risk and control effectiveness.</i> External: Appointed by shareholders; reports to shareholders; focuses on the "true and fair view" of financial statements. <p>Outsourcing Functions: Commonly outsourced areas include payroll, internal audit, IT services, and tax compliance.</p> <ul style="list-style-type: none"> Advantages: Cost savings, access to specialist skills/technology, and allowing management to focus on "core activities". Disadvantages: Loss of control, potential for high fees, and risk of the external provider lacking deep entity-specific knowledge. <p>Service Organisation Reports (ISA 402 & ISAE 3402): When a client outsources a material function (like payroll), the auditor may rely on:</p> <ul style="list-style-type: none"> Type 1 Report: A report on the description and design of the service organisation’s controls at a specific date. Type 2 Report: A more detailed report covering the description, design, and operating effectiveness of controls over a period. 	<p>Reporting (ISA 700 Series & CAMA 2020) The auditor’s report is the primary means of communication to shareholders. An unmodified (unqualified) opinion is issued when the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>Basic Elements of the Auditor’s Report Mnemonic: “TOB-GK-OR-ANS”</p> <ul style="list-style-type: none"> T – Title Must clearly state <i>“Independent Auditor’s Report.”</i> A – Addressee Usually addressed to the shareholders or the board of directors. O – Opinion The first section of the report, stating whether the financial statements give a <i>true and fair view</i>. B – Basis for Opinion Confirms that the audit was conducted in accordance with ISAs and that the auditor is independent. G – Going Concern Included where there is a material uncertainty that has been adequately disclosed. K – Key Audit Matters (KAM) Required for listed entities; highlights matters of most significance in the audit. O – Other Information Covers unaudited information in the annual report (e.g., Chairman’s Statement). R – Responsibilities Separate sections outlining the responsibilities of Management and the Auditor. A – Address/Name Includes the auditor’s location and the Engagement Partner’s name (for listed entities).

	<ul style="list-style-type: none"> • S – Signature & Date Signed on behalf of the audit firm and dated when sufficient appropriate audit evidence has been obtained. <hr/> <p>Modified Opinions (ISA 705)</p> <table border="1"> <thead> <tr> <th>Nature of Matter</th> <th>Material but NOT Pervasive</th> <th>Material AND Pervasive</th> </tr> </thead> <tbody> <tr> <td>Financial statements are materially misstated</td> <td>Qualified Opinion (“Except for”)</td> <td>Adverse Opinion (<i>Do not give a true and fair view</i>)</td> </tr> <tr> <td>Inability to obtain sufficient audit evidence</td> <td>Qualified Opinion (“Except for”)</td> <td>Disclaimer of Opinion (<i>No opinion expressed</i>)</td> </tr> </tbody> </table> <p>Nigerian Specifics (CAMA 2020) Under the 5th Schedule of CAMA 2020, auditors are required to expressly state whether:</p> <ul style="list-style-type: none"> • All necessary information and explanations were obtained • Proper books of account have been kept • The financial statements are in agreement with the underlying accounting records 	Nature of Matter	Material but NOT Pervasive	Material AND Pervasive	Financial statements are materially misstated	Qualified Opinion (“Except for”)	Adverse Opinion (<i>Do not give a true and fair view</i>)	Inability to obtain sufficient audit evidence	Qualified Opinion (“Except for”)	Disclaimer of Opinion (<i>No opinion expressed</i>)
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<p>Current Issues in Audit and Assurance The auditing profession faces evolving demands for transparency and accountability beyond financial figures.</p> <p>Sustainability and Environmental Reporting:</p> <ul style="list-style-type: none"> • Triple Bottom Line Reporting: Focuses on Financial, Social, and Environmental performance. • ISSA 5000: The new international standard for sustainability assurance engagements. • VFM Audit (3 Es): Economy (doing it cheaply), Efficiency (doing it well), and Effectiveness (doing the right thing). <p>Auditor Rotation (Nigeria - FRC Rules):</p> <ul style="list-style-type: none"> • Firm Rotation: Mandatory after 10 years of continuous service. • Cooling-off Period: Firms must wait 7 years before re-appointment. • Partner Rotation: The Engagement Partner must rotate after 5 years. <p>Small Company Audit Exemption (CAMA 2020): A company is "small" if its turnover is < ₦120 million and net assets are < ₦60 million. These companies are generally exempt from statutory audits.</p>	<p>Application of Information Technology (IT) Massive computerisation has shifted audit techniques toward automated methodologies.</p> <p>Impact of Emerging Technologies:</p> <ul style="list-style-type: none"> • Cloud Computing: Allows remote work and subscription-based audit modules. • Big Data Analytics: Enables real-time monitoring and 100% testing of populations instead of sampling. • AI & Robotics (RPA): Automates repetitive, mundane tasks like data entry and basic re-computations. • Blockchain: Creates a decentralised, secured ledger; could allow auditors to verify transactions as they occur in real time. • Drones: Used for inventory counts and inspecting the physical condition of hard-to-reach assets. <p>Digital Forensics in Fraud Investigation: The process involves Planning, Collection/Preservation, Documentation/Imaging, Examination, Reporting, and Returning of evidence.</p> <p>Nigeria Data Protection Regulation (NDPR) 2019:</p> <ul style="list-style-type: none"> • Requires a Data Protection Audit annually for organisations processing significant personal data. • Penalties: Guilty data controllers may face fines of 1% or 2% of annual gross revenue depending on the number of data subjects. • Tipping-off: Reporting a breach must occur within 72 hours of knowledge. 									