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ICAN

Advanced Audit,
Assurance and
Forensics (AAAF)

Topic-by-Topic Quiz



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Note: This study material is designed to help readers practice **active recall**. It is not a **substitute** for practicing actual past questions. Please familiarize yourself with the way the exam body sets its questions.

For more challenging quiz questions on this paper or other papers, visit: finprepacademy.com

The Meaning of Audit and Assurance

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Dynamic Ventures Plc is seeking an independent professional to provide an opinion on the reliability of its internally generated non-financial performance indicators. This professional will assess the information prepared by **Dynamic Ventures'** operational team.

In this scenario, who is the 'practitioner'?

- **A.** The independent professional providing the opinion
 - **B.** The board of directors of Dynamic Ventures Plc
 - **C.** The operational team of Dynamic Ventures Plc
 - **D.** The shareholders of Dynamic Ventures Plc
-

Question 2

After conducting a comprehensive examination of **Horizon Ltd.'s** financial statements, the independent auditor has concluded their work. The final step in their engagement is to communicate their findings and opinion to the intended users.

Which core element of an assurance engagement is represented by this final communication?

- **A.** Assurance Report
 - **B.** Sufficient and appropriate evidence
 - **C.** Subject matter
 - **D.** Suitable criteria
-

Question 3

The auditor of **Heritage Foods Plc** is preparing the audit report. A key component of the auditor's opinion is to state whether the financial statements give a specific view of the company's financial position and results.

What specific view does the auditor's opinion typically reference regarding the financial statements?

- **A.** A guaranteed accurate and complete view
- **B.** A tax-optimized view
- **C.** A management-approved view
- **D.** A true and fair view

Question 4

HealthCare Solutions, a private hospital group, wants an independent assessment of its compliance with patient data privacy regulations. The engagement requires the practitioner to evaluate the hospital's data handling practices against the specific requirements outlined in the national data protection act.

What would the national data protection act represent in this assurance engagement?

- **A.** The suitable criteria
 - **B.** The subject matter
 - **C.** The assurance report
 - **D.** The responsible party
-

Question 5

During a statutory audit, the auditor of **Connect Solutions Ltd.** gathered various forms of evidence, including confirmations from third parties, analytical review results, and management representations. The auditor understood that while this evidence was crucial for forming an opinion, it was not always definitive proof.

What is the general characteristic of audit evidence that contributes to the inability to provide absolute assurance?

- **A.** It is generally persuasive rather than conclusive.
 - **B.** It is always conclusive and objective.
 - **C.** It is primarily based on management's assertions.
 - **D.** It must be 100% accurate for all transactions.
-

Question 6

Global Logistics Plc is deciding between a statutory audit and a review engagement for its upcoming financial year. The management is particularly concerned about the perception of credibility among its external stakeholders and the overall cost implications.

Which statement accurately compares a review engagement to a statutory audit in terms of credibility, time, and cost?

- **A.** A review is more time-consuming but less costly than an audit, providing greater credibility.
 - **B.** A review is less time-consuming and less costly than an audit but provides less credibility.
 - **C.** A review is less time-consuming but more costly than an audit, providing similar credibility.
 - **D.** A review is more time-consuming and costly than an audit but provides greater credibility.
-

Question 7

Alpha Innovations engaged an accounting firm for a review engagement of its half-yearly financial statements. The firm performed inquiries and analytical procedures but did not conduct extensive verification procedures like those in an audit.

What level of comfort does this review engagement typically provide to the users of the financial statements?

- **A.** No assurance
 - **B.** Limited (Moderate) level of assurance
 - **C.** Absolute assurance
 - **D.** Reasonable (High) level of assurance
-

Question 8

EcoSolutions Ltd., a company focused on sustainable development, wants to assure its stakeholders that its environmental policies are effectively implemented and its sustainability practices meet international standards. They plan to engage an independent practitioner to report on these non-financial aspects.

Which of the following is an example of a non-audit assurance engagement that **EcoSolutions Ltd.** might undertake?

- **A.** An assurance report on its environmental policy and sustainability practices.
 - **B.** A statutory audit of its financial statements.
 - **C.** A compilation of its annual tax returns.
 - **D.** An agreed-upon procedures engagement on its payroll system.
-

Question 9

Creative Designs Agency engaged an accounting firm to assist with preparing its annual financial statements. The firm's role was to compile the financial data provided by the agency's internal team into a structured format, without performing any verification procedures or expressing an opinion on the data's accuracy.

In this compilation engagement, who is considered the 'responsible party'?

- **A.** The accounting firm
 - **B.** The external auditors of Creative Designs Agency
 - **C.** The internal team of Creative Designs Agency
 - **D.** The bank providing financing to Creative Designs Agency
-

Question 10

EcoBuild Contractors engaged an independent firm to assess its compliance with industry-specific environmental regulations for its latest construction project. The firm will compare **EcoBuild's** practices against established national environmental protection laws and industry best practices.

In this assurance engagement, what do the national environmental protection laws and industry best practices represent?

- **A.** The responsible party
- **B.** The subject matter
- **C.** The suitable criteria
- **D.** The assurance report

Answer Key and Explanations

1. Correct Answer: A. The independent professional providing the opinion

- **Explanation:** The **practitioner** is the accountant or professional engaged to give an opinion on information. In this case, the independent professional providing the opinion is the practitioner.

2. Correct Answer: A. Assurance Report

- **Explanation:** The **assurance report** is a written document providing the practitioner's opinion. It is the final output of an assurance engagement, communicating findings to users.

3. Correct Answer: D. A true and fair view

- **Explanation:** The auditor's opinion typically references whether the financial statements give a **true and fair view** or present fairly the financial position and results.

4. Correct Answer: A. The suitable criteria

- **Explanation:** **Suitable criteria** are the standards or benchmarks against which the subject matter is evaluated. The national data protection act serves as the benchmark for evaluating compliance.

5. Correct Answer: A. It is generally persuasive rather than conclusive.

- **Explanation:** Audit evidence is generally **persuasive rather than conclusive**, which contributes to the inability to provide absolute assurance.

6. Correct Answer: B. A review is less time-consuming and less costly than an audit but provides less credibility.

- **Explanation:** A review is **less time-consuming and less costly** than an audit but provides **less credibility**.

7. Correct Answer: B. Limited (Moderate) level of assurance

- **Explanation:** Review engagements provide a **limited (moderate) level of assurance**, lower than that of a statutory audit.

8. Correct Answer: A. An assurance report on its environmental policy and sustainability practices.

- **Explanation:** Examples of Non-Audit Assurance Engagements include '**Environmental policy**' and '**Sustainability policies and practices.**'

9. Correct Answer: C. The internal team of Creative Designs Agency

- **Explanation:** The **responsible party** is the one who prepares the information. In a compilation engagement, the client's internal team remains responsible for the underlying data.

10. Correct Answer: C. The suitable criteria

- **Explanation:** The national environmental protection laws and industry best practices serve as the **suitable criteria** against which EcoBuild's compliance is evaluated.

Group Audits

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Global Solutions Inc., a subsidiary of **Worldwide Holdings**, has its financial information audited by a local firm at the request of Worldwide Holdings' group engagement team.

What is the term for the local firm performing work on Global Solutions Inc.'s financial information at the request of the group team?

- **A.** Component auditor.
 - **B.** Forensic auditor.
 - **C.** Group engagement partner.
 - **D.** Internal auditor.
-

Question 2

Consolidated Holdings Plc is preparing its group financial statements. The accounting department is ensuring compliance with all relevant IFRS standards for consolidation and related disclosures.

Which of the following accounting standards is primarily relevant for the preparation of consolidated financial statements?

- **A.** IAS 1 (Presentation of Financial Statements).
- **B.** IAS 16 (Property, Plant and Equipment).
- **C.** IFRS 10 (Consolidated Financial Statements).

- **D.** IFRS 15 (Revenue from Contracts with Customers).
-

Question 3

Frontier Group disposed of its entire interest in **Explorer Ventures Ltd** during the year. The group auditor is reviewing the financial statements to ensure the disposal is correctly accounted for in the consolidated financial statements.

For disposals, what specific aspect must the group auditor confirm during the audit of the consolidation process?

- **A.** Sale proceeds and gain/loss calculations.
 - **B.** The fair values of Explorer Ventures Ltd's assets and liabilities at the disposal date.
 - **C.** The noncontrolling interest calculations for Explorer Ventures Ltd.
 - **D.** The goodwill impairment previously recognized for Explorer Ventures Ltd.
-

Question 4

The group engagement team for **Global Reach Ltd** is identifying which of its subsidiaries require a full audit for group reporting purposes. They are categorizing components based on their impact on the group.

What defines a significant component in a group audit context?

- **A.** Only components located in foreign jurisdictions.
 - **B.** Components where the group engagement partner has a personal interest.
 - **C.** Components that are either of individual financial significance to the group or are likely to include significant risks of material misstatement.
 - **D.** Any component with revenue exceeding ₦10 million.
-

Question 5

An audit firm is preparing to undertake the audit of **Horizon Group**, which comprises a parent company and several subsidiaries operating in different countries. The engagement partner is reviewing the firm's approach to ensure compliance with professional standards.

Which ISA primarily governs the special considerations for audits of group financial statements, including the work performed by component auditors?

- **A.** ISA 315 (Identifying and Assessing the Risks of Material Misstatement).
- **B.** ISA 700 (Forming an Opinion and Reporting on Financial Statements).
- **C.** ISA 220 (Quality Control for an Audit of Financial Statements).
- **D.** ISA 600 (Special Considerations—Audits of Group Financial Statements).

Question 6

Two audit firms, **Firm X** and **Firm Y**, have been appointed to conduct a joint audit for **Mega Holdings**. To ensure a smooth and effective audit process, the engagement partners are discussing strategies for collaboration.

Which of the following is crucial for the success of a joint audit?

- **A.** Each firm working independently and submitting separate audit opinions.
- **B.** Joint planning meetings, agreed-upon division of work based on hours or expertise, and mutual review of each other's work.
- **C.** One firm taking full responsibility for the entire audit, with the other acting as a reviewer.
- **D.** Minimizing communication to avoid conflicts and maintain efficiency.

Question 7

Mr. Obi is the group engagement partner for **Fortune Group**. He is ultimately accountable for the entire group audit, even though various teams and component auditors are involved.

What is the group engagement partner solely responsible for in a group audit?

- **A.** Preparing the consolidated financial statements.
- **B.** The direction, supervision, and performance of the group audit and the resulting audit report.
- **C.** Approving all intercompany transactions.
- **D.** Performing all detailed audit tests on every component.

Question 8

Dynamic Group has several components. One particular component, **SmallCo Ltd**, is financially insignificant to the group as a whole and does not present any specific significant risks of material misstatement. The group engagement team is determining the extent of audit work required for SmallCo Ltd.

For nonsignificant components like SmallCo Ltd, what type of audit procedure does the group auditor typically perform?

- **A.** An audit of specific account balances or specified audit procedures.
- **B.** A full audit of the component's financial statements.
- **C.** Analytical procedures at the group level.
- **D.** Extensive substantive testing on all transactions.

Question 9

New Horizons Audit Firm is considering accepting the audit of **Venture Capital Group**, which has investments in various industries and geographical locations. The engagement partner recognizes the importance of preliminary understanding.

Before accepting the engagement, what must the group auditor obtain an understanding of to determine significant components and assess sufficient involvement?

- **A.** The marketing strategies of the group's competitors.
 - **B.** The detailed internal control systems of every component.
 - **C.** The group and its environment.
 - **D.** The personal financial statements of the group's directors.
-

Question 10

The group engagement partner for **Evergreen Group** is preparing for a meeting with those charged with governance. The partner needs to communicate key aspects of the group audit.

Which of the following should the group auditor communicate to those charged with governance of the group?

- **A.** The specific uncorrected misstatements identified by each component auditor.
 - **B.** The names and contact details of all component auditors.
 - **C.** The detailed audit procedures performed on each component.
 - **D.** The planned scope of work on components, concerns over component auditor quality, and any limitations on the group audit.
-

Answer Key and Explanations

1. Correct Answer: A. Component auditor.

- **Explanation:** A **component auditor** is an auditor who, at the request of the group team, performs work on financial information related to a component.

2. Correct Answer: C. IFRS 10 (Consolidated Financial Statements).

- **Explanation:** **IFRS 10 (Consolidated Financial Statements)** is the primary accounting standard governing the preparation of group financial statements.

3. Correct Answer: A. Sale proceeds and gain/loss calculations.

- **Explanation:** For disposals, auditors must confirm **sale proceeds and gain/loss calculations** to ensure the transaction is accurately reflected in the consolidated financial statements.

4. Correct Answer: C. Components that are either of individual financial significance to the group or are likely to include significant risks of material misstatement.

- **Explanation: Significant components** are defined as those that are either of individual financial significance to the group or are likely to include significant risks of material misstatement.

5. Correct Answer: D. ISA 600 (Special Considerations—Audits of Group Financial Statements).

- **Explanation: ISA 600** specifically addresses the special considerations for audits of group financial statements, including the coordination and reliance on work performed by component auditors.

6. Correct Answer: B. Joint planning meetings, agreed-upon division of work based on hours or expertise, and mutual review of each other's work.

- **Explanation:** Success in joint audits requires **joint planning meetings, agreed-upon division of work based on hours or expertise, and mutual review** of each other's work.

7. Correct Answer: B. The direction, supervision, and performance of the group audit and the resulting audit report.

- **Explanation:** The group engagement partner is solely responsible for the **direction, supervision, and performance** of the group audit and the resulting audit report.

8. Correct Answer: C. Analytical procedures at the group level.

- **Explanation:** For nonsignificant components, the group auditor typically performs **analytical procedures at the group level**, as the risk of material misstatement is low.

9. Correct Answer: C. The group and its environment.

- **Explanation:** The group auditor must obtain an understanding of **the group and its environment** to determine significant components and assess whether they can be sufficiently involved.

10. Correct Answer: D. The planned scope of work on components, concerns over component auditor quality, and any limitations on the group audit.

- **Explanation:** Communication with those charged with governance should include the **planned scope of work on components, concerns over component auditor quality, and any limitations on the group audit**.

Audit-related Services

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

A company, **Sunset Holdings Ltd.**, has decided to cease its operations entirely, sell off all its assets, and pay its creditors before distributing any remaining funds to shareholders.

What is the term for this process of bringing a company's affairs to an end by realizing assets and paying creditors?

- A. Restructuring.
 - B. Administration.
 - C. Receivership.
 - D. Liquidation.
-

Question 2

Troubled Times Ltd. is an insolvent company. Its directors are considering options for winding up the company. They are debating whether to initiate the process themselves or wait for a creditor or the court to intervene.

What is the key distinction between a voluntary winding up and a compulsory winding up in Nigeria?

- A. Voluntary winding up has no court intervention, while compulsory winding up is by court order.
 - B. Voluntary winding up is initiated by creditors, while compulsory winding up is by shareholders.
 - C. Voluntary winding up applies only to solvent companies, while compulsory winding up applies only to insolvent companies.
 - D. Voluntary winding up involves court intervention, while compulsory winding up does not.
-

Question 3

A practitioner is performing an engagement that provides limited assurance on financial information, falling under the category of audit-related services.

Which set of international standards primarily regulates these types of engagements?

- A. International Standard on Review Engagements (ISRE) and International Standard on Related Services (ISRS).
 - B. International Standards on Auditing (ISAs).
 - C. International Public Sector Accounting Standards (IPSAS).
 - D. International Financial Reporting Standards (IFRS).
-

Question 4

Starlight Enterprises Ltd. is facing severe financial difficulties and is unable to pay its debts as they fall due. The company's management is exploring options to avoid immediate winding up and believes there is a chance to restructure and continue trading.

Which process, designed to give an insolvent company a chance to trade its way out of difficulties, would be most suitable for **Starlight Enterprises Ltd.** ?

- A. Receivership.

- **B.** Voluntary liquidation.
 - **C.** Compulsory winding up.
 - **D.** Administration.
-

Question 5

Titan Audit Firm has been the external auditor for **Cosmos Corporation Plc** for the past nine consecutive years. Cosmos Corporation is a public interest entity in Nigeria. The board of directors is discussing the upcoming audit engagement.

Based on the **FRC Nigeria Audit Regulation 2020**, what is the mandatory requirement concerning **Titan Audit Firm's** continued engagement with **Cosmos Corporation Plc** ?

- **A.** Titan Audit Firm must rotate off the engagement immediately, as nine years is already too long.
 - **B.** The FRC Nigeria Audit Regulation 2020 does not specify mandatory audit firm rotation.
 - **C.** Titan Audit Firm must rotate off the engagement after the current year's audit, having served 10 years.
 - **D.** Titan Audit Firm can continue as auditor indefinitely as long as performance is satisfactory.
-

Question 6

A new junior accountant is learning about different types of engagements performed by practitioners. They encounter the term 'audit-related services.'

How are audit-related services generally characterized compared to a statutory audit?

- **A.** They do not provide the high level of assurance found in a statutory audit.
 - **B.** They provide a higher level of assurance than a statutory audit.
 - **C.** They provide the same high level of assurance as a statutory audit.
 - **D.** They are always statutory engagements.
-

Question 7

A practitioner has completed a review engagement of **Galaxy Ltd.'s** historical financial statements under **ISRE 2400** and is drafting the review report.

Which statement is a mandatory component of the review report regarding the scope of the engagement?

- **A.** A statement that the review provides a high level of assurance similar to an audit.
- **B.** A statement that the practitioner verified the accuracy and completeness of all information.

- **C.** A statement that the review is substantially less in scope than an audit and that no audit opinion is expressed.
 - **D.** A statement that the engagement was conducted in accordance with International Standards on Auditing (ISAs).
-

Question 8

A practitioner has completed a review engagement of **Family Business Ltd.'s** historical financial statements. The engagement was commissioned by the company's shareholders.

Which component is mandatory for the practitioner to include in the review report regarding the intended recipient of the report?

- **A.** A statement that the report is for general public use.
 - **B.** An identification of the financial information reviewed.
 - **C.** A disclaimer that the report is not for shareholders.
 - **D.** An addressee.
-

Question 9

A practitioner is conducting an assurance engagement on **Omega Corp.'s** internal control over financial reporting, following the **Nigerian FRC Guidance**. During the engagement, the practitioner identifies several significant deficiencies, including instances of management override of controls and a lack of proper oversight by those charged with governance, leading to a material weakness.

What is the required action for the practitioner regarding these identified material weaknesses?

- **A.** To issue an adverse opinion on the financial statements.
 - **B.** To ignore them if management promises to rectify them in the next period.
 - **C.** To communicate them in writing to those charged with governance.
 - **D.** To immediately report them to the Economic and Financial Crimes Commission (EFCC).
-

Question 10

A practitioner is asked to perform two separate review engagements: one for **Company A's** annual historical financial statements and another for **Company B's** quarterly interim financial information.

Which standards would primarily govern these two distinct review engagements, respectively?

- **A.** ISAs for Company A and ISRE 2400 for Company B.
- **B.** ISRE 2400 for Company A and ISRE 2410 for Company B.
- **C.** ISRE 2410 for Company A and ISRE 2400 for Company B.

- **D. ISRS 4400 for Company A and ISRS 4410 for Company B.**
-

Answer Key and Explanations

1. Correct Answer: D. Liquidation.

- **Explanation: Liquidation** is defined as the process of bringing a company's affairs to an end by realizing assets and paying creditors.

2. Correct Answer: A. Voluntary winding up has no court intervention, while compulsory winding up is by court order.

- **Explanation:** Winding up can be **voluntary (no court intervention)** or **compulsory (by court order)**, distinguishing the initiation and oversight of the liquidation process.

3. Correct Answer: A. International Standard on Review Engagements (ISRE) and International Standard on Related Services (ISRS).

- **Explanation:** Audit-related services are primarily regulated by the **International Standard on Review Engagements (ISRE)** and the **International Standard on Related Services (ISRS)**.

4. Correct Answer: D. Administration.

- **Explanation: Administration** is an alternative process designed to give an insolvent company a chance to trade its way out of difficulties, rather than immediately proceeding to liquidation.

5. Correct Answer: C. Titan Audit Firm must rotate off the engagement after the current year's audit, having served 10 years.

- **Explanation:** The **FRC Nigeria Audit Regulation 2020** mandates audit firm rotation after **10 years**. Having served nine years, the firm would complete its tenth year and then be required to rotate.

6. Correct Answer: A. They do not provide the high level of assurance found in a statutory audit.

- **Explanation:** Audit-related services include engagements performed by a practitioner that **do not provide the high level of assurance** found in a statutory audit, offering limited or no assurance.

7. Correct Answer: C. A statement that the review is substantially less in scope than an audit and that no audit opinion is expressed.

- **Explanation:** A review report must explicitly state that a review is **substantially less in scope than an audit** and that **no audit opinion is expressed**.

8. Correct Answer: D. An addressee.

- **Explanation:** A review report must be in writing and include a title, an **addressee**, and an identification of the financial information reviewed.

9. Correct Answer: C. To communicate them in writing to those charged with governance.

- **Explanation:** The Nigerian FRC Guidance requires that **material weaknesses** must be **communicated in writing to those charged with governance**.

10. Correct Answer: B. ISRE 2400 for Company A and ISRE 2410 for Company B.

- **Explanation: ISRE 2400** governs the review of historical financial statements, while **ISRE 2410** specifically covers reviews of interim financial information performed by the entity's independent auditor.

Assurance Services

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Scenario: **Public Works Department** is undergoing an assessment to determine if it is achieving its desired objectives, such as reducing traffic congestion by a certain percentage. The assessment focuses on the ultimate impact of its projects.

Question: Which of the "3 Es" of Value for Money (VFM) engagements is primarily being evaluated in this assessment?

- **A. Economy**
 - **B. Equity**
 - **C. Effectiveness**
 - **D. Efficiency**
-

Question 2

Scenario: An assurance practitioner is reviewing **Efficient Operations Plc's** manufacturing process. The objective is to determine if the company is getting the highest possible output from its available raw materials and labor resources.

Question: Which of the "3 Es" of Value for Money (VFM) engagements is primarily being assessed in this review?

- **A. Effectiveness**
 - **B. Efficiency**
 - **C. Economy**
 - **D. Equity**
-

Question 3

Scenario: An assurance practitioner is performing an engagement on **CyberSecure Ltd's** computer networks and web sites to assess their security and integrity. The practitioner is particularly concerned with the potential for data breaches and unauthorized access.

Question: What specific type of assurance engagement is the practitioner conducting in this scenario?

- **A.** Prospective Financial Information (PFI) engagement
 - **B.** Risk Assessment engagement
 - **C.** Systems Reliability and Ecommerce engagement
 - **D.** Value for Money (VFM) engagement
-

Question 4

Scenario: **Forensic Investigations Ltd** is conducting a forensic investigation into suspected financial crimes at a major corporation in Nigeria. The investigation involves analyzing complex financial transactions and identifying potential breaches of anti-corruption laws.

Question: Which Nigerian legal framework would primarily be relevant for investigating corruption in this context?

- **A.** Federal Inland Revenue Service (FIRS) regulations
 - **B.** Independent Corrupt Practices Commission (ICPC) Act 2000
 - **C.** Bank and Other Financial Institutions Act (BOFIA) 1991
 - **D.** Economic and Financial Crimes Commission (EFCC) Act 2004
-

Question 5

Scenario: A forensic investigation is underway at **CorruptCo Plc** following allegations of widespread corruption and embezzlement. The investigation team is focused on gathering irrefutable evidence that can withstand scrutiny in a court of law. The process involves identifying, collecting, and preserving financial records and digital data.

Question: What specific term refers to the procedures used to gather evidence that must be strong enough to stand up in court during such an investigation?

- **A.** Compliance review
 - **B.** Due diligence
 - **C.** Forensic Audit
 - **D.** Financial audit
-

Question 6

Scenario: **Global Tax Services** is under investigation by Nigerian authorities for suspected tax evasion. A forensic accountant is engaged to assist with the investigation, specifically focusing on identifying instances of fraudulent tax declarations and undeclared income.

Question: Which Nigerian agency would primarily be responsible for investigating tax fraud in this context?

- **A.** Economic and Financial Crimes Commission (EFCC)
 - **B.** National Agency for Food and Drug Administration and Control (NAFDAC)
 - **C.** Federal Inland Revenue Service (FIRS)
 - **D.** Independent Corrupt Practices Commission (ICPC)
-

Question 7

Scenario: **Horizon Bank Plc** is undergoing an investigation by regulatory authorities due to suspected financial irregularities. A forensic accounting team has been engaged to gather and analyze financial information to be used as evidence in potential legal proceedings.

Question: Which specific Nigerian legal framework would primarily govern investigations into financial irregularities within **Horizon Bank Plc** ?

- **A.** Independent Corrupt Practices Commission (ICPC) Act 2000
 - **B.** Bank and Other Financial Institutions Act (BOFIA) 1991
 - **C.** Federal Inland Revenue Service (FIRS) regulations
 - **D.** Economic and Financial Crimes Commission (EFCC) Act 2004
-

Question 8

Scenario: **Apex Consulting Group** is preparing a prospectus for a client seeking to raise capital. The prospectus includes pro forma financial information to illustrate the impact of a recent significant acquisition. An assurance engagement is required for this information.

Question: Which ISAE specifically governs assurance engagements to report on the compilation of pro forma financial information included in a prospectus?

- **A.** ISQM 1
 - **B.** ISAE 3000
 - **C.** ISAE 3420
 - **D.** ISAE 3400
-

Question 9

Scenario: An assurance practitioner is examining the Prospective Financial Information (PFI) of **NewEra Startups**. As part of the PFI Audit Procedures, the practitioner is comparing the projected profit figures with the projected capital expenditure plans to ensure logical consistency.

Question: What specific PFI Audit Procedure is the practitioner performing in this instance?

- **A.** Reperforming calculations like trend extrapolations.
 - **B.** Checking the internal consistency between different forecasts.
 - **C.** Performing sensitivity analysis.
 - **D.** Evaluating the consistency of assumptions.
-

Question 10

Scenario: An assurance firm is evaluating the financial projections of **Future Ventures Ltd** for a potential investor. The projections are based on management's best estimate of future economic conditions and market growth, which they genuinely expect to occur.

Question: According to ISAE 3400, what specific type of Prospective Financial Information (PFI) is **Future Ventures Ltd** presenting?

- **A.** Pro forma financial information
 - **B.** Projection
 - **C.** Historical financial information
 - **D.** Forecast
-

Answer Key and Explanations

1. Correct Answer: C. Effectiveness

- **Explanation: Effectiveness** in VFM engagements refers to achieving the desired objectives.

2. Correct Answer: B. Efficiency

- **Explanation: Efficiency** in VFM engagements refers to getting the highest output from available resources.

3. Correct Answer: C. Systems Reliability and Ecommerce engagement

- **Explanation: Systems Reliability and Ecommerce engagements** focus on the security and integrity of computer networks and web sites.

4. Correct Answer: B. Independent Corrupt Practices Commission (ICPC) Act 2000

- **Explanation: The Independent Corrupt Practices Commission (ICPC) Act 2000** is specifically mentioned as governing corruption in Nigeria.

5. Correct Answer: C. Forensic Audit

- **Explanation: Forensic Audit** refers to the specific procedures used to gather evidence, which must be strong enough to stand up in court.

6. Correct Answer: C. Federal Inland Revenue Service (FIRS)

- **Explanation: The Federal Inland Revenue Service (FIRS)** is specifically mentioned as responsible for tax fraud investigations in Nigeria.

7. Correct Answer: B. Bank and Other Financial Institutions Act (BOFIA) 1991

- **Explanation: The Bank and Other Financial Institutions Act (BOFIA) 1991** is specifically mentioned as governing bank investigations in Nigeria.

8. Correct Answer: C. ISAE 3420

- **Explanation: ISAE 3420** governs assurance engagements to report on the compilation of pro forma financial information included in a prospectus.

9. Correct Answer: B. Checking the internal consistency between different forecasts.

- **Explanation: PFI Audit Procedures** include **checking the internal consistency between different forecasts** (e.g., profit and capital expenditure).

10. Correct Answer: D. Forecast

- **Explanation: A Forecast** is defined as Prospective Financial Information based on best-estimate assumptions of events management expects to happen.

Internal Audit and Outsourcing

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

CleanWater Utilities Plc is committed to sustainable operations and minimizing its ecological footprint. The management has requested the internal audit department to conduct a review of the company's waste management practices, water usage, and recycling initiatives to ensure they align with the company's sustainability goals.

Which specific type of internal audit is CleanWater Utilities Plc's internal audit department primarily conducting?

- **A. Human Resource Audit**
- **B. Operational Audit**
- **C. Financial Audit**

- **D. Environmental Audit**
-

Question 2

Global Manufacturing Plc has outsourced its entire IT support and maintenance to **TechAssist Solutions**. While this has provided access to specialist skills, the Chief Information Officer (CIO) has expressed frustration over the lack of direct oversight. He feels that TechAssist's staff do not always prioritize Global Manufacturing's urgent requests as quickly as in-house staff would.

Which disadvantage of outsourcing is Global Manufacturing Plc experiencing in this scenario?

- **A. Lack of direct control over the service provider's staff.**
 - **B. Access to specialist skills and up-to-date technology.**
 - **C. Cost savings from the outsourced service.**
 - **D. Ability for management to focus on core activities.**
-

Question 3

Innovate Solutions Plc, a rapidly expanding tech firm, is considering outsourcing its IT services, including data center management and network security, to a specialized external provider. The board is evaluating the potential benefits of this strategic move.

Which of the following is a key advantage Innovate Solutions Plc could gain from outsourcing its IT services?

- **A. A deeper internal knowledge of the outsourced function.**
 - **B. Access to specialist skills or up-to-date technology not available in-house.**
 - **C. Elimination of the need for external audit procedures related to IT.**
 - **D. Increased direct control over the service provider's staff.**
-

Question 4

Dynamic Solutions Inc., a rapidly growing IT consulting firm, has recently established an internal audit function. The CEO views this function as crucial for navigating the complexities of rapid expansion and maintaining control over operations. He emphasizes that it is a tool to help the company stay competitive.

How does the CEO's view align with the fundamental nature of internal auditing?

- **A. It aligns because internal auditing functions as a critical management tool for monitoring controls.**
- **B. It aligns because internal auditing is primarily a statutory requirement for growing companies.**
- **C. It aligns because internal auditing is solely focused on external regulatory compliance.**
- **D. It aligns because internal auditing is a substitute for management's direct oversight.**

Question 5

Family Foods Ltd., a medium-sized food processing company, has recently grown significantly. The managing director is considering establishing an internal audit department to enhance oversight. However, a board member questioned if it was a legal requirement, suggesting that the company might be forced to establish one soon.

Based on the nature of internal auditing, what is the correct understanding regarding its establishment for Family Foods Ltd.?

- **A.** It is established by management to help ensure the entity is competitive and uses resources effectively.
- **B.** It is a legally required function for all companies above a certain size.
- **C.** It is only required if the external auditor identifies significant control weaknesses.
- **D.** It is a statutory requirement for companies operating over multiple sites.

Question 6

Premier Bank Plc is considering outsourcing its internal audit function to a specialized accounting firm. The board is weighing the potential benefits against the drawbacks. One of the key arguments in favor of outsourcing is the perceived enhancement of the audit function's objectivity.

Which advantage is specifically associated with outsourcing the internal audit function to an external firm?

- **A.** A higher level of independence for the internal audit function.
- **B.** More detailed internal knowledge of the bank's operations.
- **C.** Reduced overall audit costs for the bank.
- **D.** Direct control over the day-to-day activities of the audit staff.

Question 7

Future Horizons Plc has recently implemented a new enterprise resource planning (ERP) system. The management is keen to ensure that the system's internal controls are functioning as intended and that the system is being used effectively across all departments. They have tasked the internal audit department with reviewing the system's implementation and usage.

What is a primary outcome expected from the internal auditor's work in this scenario?

- **A.** A report on the market competitiveness of the ERP system vendor.
- **B.** A statutory opinion on the truth and fairness of the ERP system's financial data.
- **C.** A certification of the ERP system's compliance with international accounting standards.

- **D.** Recommendations for improvement to the ERP system's internal controls and usage.
-

Question 8

PeopleFirst HR Solutions, a large recruitment agency, has an internal audit department. The management has recently requested the internal audit team to review the effectiveness of their recruitment processes, employee training programs, and staff retention strategies to ensure they align with the company's human capital objectives.

Which specific type of internal audit is the internal audit department primarily conducting in this scenario?

- **A.** Compliance Audit
 - **B.** Operational Audit
 - **C.** Financial Audit
 - **D.** Human Resource Audit
-

Question 9

Horizon Logistics Ltd., a client of your audit firm, uses **CloudPay Services** for its payroll processing. Your firm, as the user auditor, has obtained an ISAE 3402 Type 2 report from CloudPay's service auditor. You are now preparing your audit report for Horizon Logistics.

Under ISAE 3402, what is the appropriate approach for the user auditor regarding reference to the service auditor in their audit report?

- **A.** The user auditor should not refer to the service auditor unless required by law or regulation, and if referred, must clarify it does not reduce their own responsibility.
 - **B.** The user auditor must always refer to the service auditor to share responsibility for the opinion.
 - **C.** The user auditor should refer to the service auditor to enhance the credibility of their own audit report.
 - **D.** The user auditor can refer to the service auditor only if a modified opinion is issued.
-

Question 10

Heritage Bank Plc, a major financial institution, has a robust internal audit department. The Chief Executive Officer (CEO) often refers to the internal audit function as a crucial element in maintaining the bank's stability and reputation. He views it as a mechanism to ensure that all departments adhere to established policies and procedures.

How does the CEO's perspective align with the fundamental definition of internal auditing?

- **A.** It aligns because internal auditing is primarily a legal requirement for financial institutions.
- **B.** It aligns because internal auditing serves as a critical management tool for monitoring controls.

- **C.** It aligns because internal auditing is solely focused on substantiating figures in financial statements.
 - **D.** It aligns because internal auditing is a substitute for external regulatory oversight.
-

Answer Key and Explanations

1. Correct Answer: D. Environmental Audit

- **Explanation:** **Environmental audits** are a type of specialized audit that focuses on sustainability and recycling, reviewing waste management and water usage practices.

2. Correct Answer: A. Lack of direct control over the service provider's staff.

- **Explanation:** A key disadvantage of outsourcing is the **lack of direct control** over the service provider's staff, leading to issues such as differing priorities or slower response times.

3. Correct Answer: B. Access to specialist skills or up-to-date technology not available in-house.

- **Explanation:** A significant advantage of outsourcing is gaining **access to specialist skills or up-to-date technology** that may not be cost-effective to maintain in-house.

4. Correct Answer: A. It aligns because internal auditing functions as a critical management tool for monitoring controls.

- **Explanation:** Internal auditing functions as a **critical management tool for monitoring controls** in increasingly complex and global organizations.

5. Correct Answer: A. It is established by management to help ensure the entity is competitive and uses resources effectively.

- **Explanation:** Internal auditing is **not legally required**. It is established by management as a service to the entity to help ensure it is competitive and uses resources effectively.

6. Correct Answer: A. A higher level of independence for the internal audit function.

- **Explanation:** Using an external firm provides a **higher level of independence** as the external firm is not part of the entity's management structure, enhancing objectivity.

7. Correct Answer: D. Recommendations for improvement to the ERP system's internal controls and usage.

- **Explanation:** Internal auditors examine systems, assess risks, and make **recommendations for improvement**, such as enhancing internal controls and effectiveness of new systems.

8. Correct Answer: D. Human Resource Audit

- **Explanation:** **Human resource audits** are a type of specialized audit that focuses on recruitment and training systems, including employee training programs and retention strategies.

9. Correct Answer: A. The user auditor should not refer to the service auditor unless required by law or regulation, and if referred, must clarify it does not reduce their own responsibility.

- **Explanation:** **ISAE 3402** states that the user auditor should **not refer to the service auditor** in their report unless required, and if referred, must clarify it does not reduce their responsibility.

10. Correct Answer: B. It aligns because internal auditing serves as a critical management tool for monitoring controls.

- **Explanation:** Internal auditing serves as a **critical management tool for monitoring controls**, ensuring adherence to policies and procedures, supporting stability and reputation.

Reporting

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Harmony Public Company Plc is undergoing its annual audit. In addition to the standard reporting duties, CAMA 2020 imposes specific requirements for auditors of public companies.

Beyond the general duties, what additional reporting responsibility does CAMA 2020 mandate for the auditor of a public company?

- **A.** To provide a detailed analysis of the company's market share.
 - **B.** To certify the company's compliance with all tax laws.
 - **C.** To make a report to the audit committee.
 - **D.** To report directly to the Corporate Affairs Commission on all findings.
-

Question 2

Nexus Technologies Plc, a listed entity in Nigeria, has just concluded its annual audit. The audit firm is preparing the final unmodified auditor's report.

According to the requirements for listed entities in Nigeria, which specific individual's name must be included in the auditor's report?

- **A.** The Chairman of the Audit Committee of Nexus Technologies Plc
 - **B.** The Head of the Audit Firm
 - **C.** The Chief Financial Officer of Nexus Technologies Plc
 - **D.** The Engagement Partner
-

Question 3

The audit report serves as the only direct communication between the auditor and the shareholders. However, there are often misunderstandings about the auditor's role.

Which of the following is a common misconception about the auditor's report?

- **A.** Auditors declare independence in their report.
 - **B.** Auditors primarily focus on the true and fair view of financial statements.
 - **C.** Auditors provide reasonable assurance, not absolute assurance.
 - **D.** Auditors are responsible for testing every single transaction.
-

Question 4

The fundamental objective of the auditor's report is to state whether the financial statements provide a true and fair view or present fairly.

What does the term 'true and fair view' primarily imply in the context of financial reporting?

- **A.** That the financial statements are free from any errors, regardless of materiality.
 - **B.** Absolute accuracy and precision in all financial figures.
 - **C.** Compliance with legislation, use of best estimates, and avoidance of bias or concealment.
 - **D.** A guarantee that the company will be profitable in the future.
-

Question 5

The auditor of **Green Earth Enterprises** is planning the audit for the upcoming year. As part of the audit process, the auditor needs to communicate with those charged with governance.

Which of the following is a key area that auditors are required to communicate to those charged with governance under ISA 260?

- **A.** The planned scope and timing of the audit.
 - **B.** Detailed list of all individual transactions reviewed during the audit.
 - **C.** The auditor's personal investment portfolio.
 - **D.** A guarantee of future profitability of the entity.
-

Question 6

The audit engagement partner for **Zenith Holdings Plc**, a listed company, is finalizing the unmodified auditor's report. The audit fieldwork was completed on March 15, 2023, and all necessary audit evidence was obtained by March 20, 2023. The financial statements were approved by the board of directors on March 25, 2023.

According to ISA 700, what is the earliest date the auditor's report can be dated?

- **A.** Any date after the board approval
- **B.** March 25, 2023

- C. March 15, 2023
 - D. March 20, 2023
-

Question 7

In the 'Auditor Responsibilities' section of an unmodified report, the auditor explains the objective of obtaining reasonable assurance.

What does 'reasonable assurance' signify in the context of an audit?

- A. A high, but not absolute, level of assurance that the financial statements are free from material misstatement.
 - B. A guarantee that the financial statements are 100% accurate and free from all misstatements.
 - C. A confirmation that the company will achieve its financial forecasts.
 - D. An assurance that the auditor has tested every single transaction recorded by the entity.
-

Question 8

The auditor of **Reliable Services Ltd.** is preparing the audit report for the year ended December 31, 2022. During the audit, the auditor noted that the company's accounting records were poorly maintained, with numerous unrecorded transactions and missing supporting documentation, making it difficult to trace balances.

Under the Fifth Schedule of CAMA 2020, which specific statement related to books of account must the auditor expressly include in the report given this observation?

- A. Whether proper books of account were kept.
 - B. Whether the books of account were audited by an internal audit department.
 - C. Whether the company's books of account were digitized.
 - D. Whether the books of account were reconciled daily.
-

Question 9

The auditor of **Future Horizons Ltd.** is finalizing the unmodified auditor's report. The report needs to be properly signed and dated.

Which of the following is a correct requirement for the signature and date of the auditor's report?

- A. It must be signed only by the individual engagement partner.
- B. It must be signed in the name of the firm and the individual partner, include the auditor's location, and be dated no earlier than the date evidence was obtained.

- **C.** It can be dated before the audit evidence was obtained, as long as it's before the financial statements are issued.
 - **D.** It only requires the firm's signature, not the individual partner's.
-

Question 10

The 'Management Responsibilities' section is a mandatory element of the unmodified auditor's report.

What is the primary role of management as detailed in this section?

- **A.** To assess the auditor's performance and independence.
 - **B.** To conduct the audit of the financial statements.
 - **C.** To provide an independent opinion on the financial statements.
 - **D.** To prepare the financial statements in accordance with the applicable financial reporting framework.
-

Answer Key and Explanations

1. Correct Answer: C. To make a report to the audit committee.

- **Explanation:** For public companies in Nigeria, CAMA 2020 specifically requires that a **report must also be made to the audit committee**, in addition to general reporting duties.

2. Correct Answer: D. The Engagement Partner

- **Explanation:** For listed entities in Nigeria, the name of the **Engagement Partner** is a mandatory element to be included in the auditor's report.

3. Correct Answer: D. Auditors are responsible for testing every single transaction.

- **Explanation:** A common misconception is the belief that **auditors test every single transaction**. In reality, auditors use sampling and other procedures to obtain reasonable assurance.

4. Correct Answer: C. Compliance with legislation, use of best estimates, and avoidance of bias or concealment.

- **Explanation:** 'True and fair view' implies **compliance with legislation, use of best estimates, and avoidance of bias or concealment** in preparing financial statements.

5. Correct Answer: A. The planned scope and timing of the audit.

- **Explanation:** ISA 260 requires auditors to communicate with those charged with governance regarding the **planned scope and timing of the audit**, as well as significant audit findings.

6. Correct Answer: D. March 20, 2023

- **Explanation:** The auditor's report must be dated no earlier than the date on which the auditor has obtained **sufficient appropriate audit evidence** (March 20, 2023).

7. Correct Answer: A. A high, but not absolute, level of assurance that the financial statements are free from material misstatement.

- **Explanation:** Reasonable assurance is a high level of assurance, but it is **not a guarantee** that an audit will always detect a material misstatement.

8. Correct Answer: A. Whether proper books of account were kept.

- **Explanation:** The Fifth Schedule of CAMA 2020 mandates auditors to expressly state **whether proper books of account were kept** by the company.

9. Correct Answer: B. It must be signed in the name of the firm and the individual partner, include the auditor's location, and be dated no earlier than the date evidence was obtained.

- **Explanation:** The auditor's report must be signed in the name of the audit firm and the individual engagement partner, include the auditor's location, and be dated no earlier than the date evidence was obtained.

10. Correct Answer: D. To prepare the financial statements in accordance with the applicable financial reporting framework.

- **Explanation:** The 'Management Responsibilities' section details management's role in **preparing the financial statements** in accordance with the applicable financial reporting framework.

Current Issues

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Global Holdings Plc, a Public Interest Entity, has engaged **Synergy Auditors** and **Precision Partners** as joint auditors since January 1, 2008. They have continuously served in this capacity. The board is now reviewing their audit arrangements for the year ending December 31, 2023.

According to the **Nigeria Code of Corporate Governance 2018** and **Audit Regulation 2020**, what is the maximum continuous period these joint audit firms can serve before mandatory rotation?

- A. 10 years
 - B. 15 years
 - C. 7 years
 - D. 5 years
-

Question 2

The Companies and Allied Matters Act (CAMA) 2020 introduced provisions for certain companies to be exempt from statutory audits, aiming to reduce the regulatory burden on smaller entities.

Which specific section of CAMA 2020 deals with the audit exemption for small companies?

- A. Section 101
 - B. Section 500
 - C. Section 250
 - D. Section 394
-

Question 3

The audit committee of **Alpha Corporation**, a Public Interest Entity, is reviewing the scope of services to be provided by its external auditor. The committee is mindful of the requirements influenced by the **US Sarbanes-Oxley Act (SOX) 2002**.

What is a key responsibility of the **audit committee** regarding services provided by the external auditor under the influence of **SOX**?

- A. To recommend the auditor for non-audit services without prior approval.
 - B. To delegate the approval of non-audit services to management.
 - C. To ensure the auditor provides internal audit outsourcing related to financial controls.
 - D. To preapprove all services, both audit and non-audit, provided by the auditor.
-

Question 4

The US Sarbanes-Oxley Act (SOX) 2002 was a landmark piece of legislation that significantly reshaped corporate governance and auditing practices. Its enactment was a direct response to a specific period of corporate malfeasance.

Which historical events primarily led to the introduction of the US Sarbanes-Oxley Act (SOX) 2002?

- A. Scandals like Enron and WorldCom.
 - B. The 2008 global financial crisis.
 - C. The savings and loan crisis of the 1980s.
 - D. The dot-com bubble burst of 2000.
-

Question 5

A company's eligibility for audit exemption is being determined based on its financial position.

What is the maximum net assets threshold for a company to be considered a **small company** under **Section 394 of the Companies and Allied Matters Act (CAMA) 2020** ?

- A. ₦30 million
 - B. ₦60 million
 - C. ₦50 million
 - D. ₦120 million
-

Question 6

The auditing profession underwent significant changes globally following major corporate scandals in the early 2000s. These events highlighted the need for stronger independence standards and enhanced corporate governance.

Which specific US legislation significantly influenced global independence standards for auditors after these historical scandals?

- A. Foreign Corrupt Practices Act
 - B. Glass-Steagall Act
 - C. Dodd-Frank Act
 - D. Sarbanes-Oxley Act (SOX) 2002
-

Question 7

The International Federation of Accountants (IFAC) plays a crucial role in overseeing the quality of international audits. It has a specific committee dedicated to ensuring compliance with international quality standards among its member firms that conduct transnational audits.

Which committee of IFAC oversees Forum of Firms members to ensure compliance with international quality standards for transnational audits?

- A. Professional Ethics Committee
 - B. Transnational Audit Committee (TAC)
 - C. Small and Medium Practices Committee
 - D. International Auditing and Assurance Standards Board (IAASB)
-

Question 8

Mr. Kunle Adebayo is the Engagement Partner for the audit of **MegaCorp Plc**, a Public Interest Entity. He has served in this capacity for 4 consecutive years. The audit committee is reviewing the firm's compliance with

auditor rotation requirements as per Nigerian regulations. They are planning for the next audit cycle and need to determine Mr. Adebayo's eligibility to continue in his role.

According to the **Nigeria Code of Corporate Governance 2018** and **Audit Regulation 2020**, what is the maximum continuous period an Engagement Partner can serve for a PIE before rotation is required?

- **A.** 3 years
 - **B.** 7 years
 - **C.** 10 years
 - **D.** 5 years
-

Question 9

Many modern entities are moving beyond traditional financial reporting to include broader aspects of their performance. This expanded reporting aims to provide a more holistic view of the company's impact and sustainability.

What type of reporting covers financial, social, and environmental performance?

- **A.** Integrated Reporting
 - **B.** Triple Bottom Line Reporting
 - **C.** Sustainability Reporting
 - **D.** Corporate Social Responsibility Reporting
-

Question 10

An auditing profession is regulated by two main approaches: one that provides a strict list of prohibitions and another that relies on broad principles and reasoned arguments. The latter is often preferred for its adaptability and reliance on professional judgment.

Which of these approaches is considered superior due to its flexibility and ability to prevent narrow interpretations?

- **A.** The compliance approach
 - **B.** The rulebook approach
 - **C.** The prescriptive approach
 - **D.** The framework approach
-

Answer Key and Explanations

1. Correct Answer: B. 15 years

- **Explanation:** For joint audits of Public Interest Entities, audit firms must be rotated after a continuous period of **15 years**.

2. Correct Answer: D. Section 394

- **Explanation:** Under **Section 394** of the Companies and Allied Matters Act (CAMA) 2020, small companies are exempt from statutory audits.

3. Correct Answer: D. To preapprove all services, both audit and non-audit, provided by the auditor.

- **Explanation:** Under SOX 2002, the audit committee must **preapprove all services**, both audit and non-audit, provided by the external auditor to maintain independence.

4. Correct Answer: A. Scandals like Enron and WorldCom.

- **Explanation:** Historical scandals like **Enron and WorldCom** led to the US Sarbanes-Oxley Act (SOX) 2002.

5. Correct Answer: B. ₦60 million

- **Explanation:** A small company is defined as one having net assets not exceeding **₦60 million**.

6. Correct Answer: D. Sarbanes-Oxley Act (SOX) 2002

- **Explanation:** Historical scandals like Enron and WorldCom led to the US **Sarbanes-Oxley Act (SOX) 2002**, which significantly influenced global independence standards.

7. Correct Answer: B. Transnational Audit Committee (TAC)

- **Explanation:** The **Transnational Audit Committee (TAC)** of IFAC oversees Forum of Firms members to ensure compliance with international quality standards for transnational audits.

8. Correct Answer: D. 5 years

- **Explanation:** Under Nigerian regulations, Engagement Partners must rotate after a continuous period of **5 years** for Public Interest Entities (PIEs).

9. Correct Answer: B. Triple Bottom Line Reporting

- **Explanation:** **Triple Bottom Line Reporting** is a framework that encompasses an entity's financial, social, and environmental performance.

10. Correct Answer: D. The framework approach

- **Explanation:** The **framework approach** is considered superior because it is flexible, prevents narrow interpretations, and relies on professional judgment.

Application of Information Technology

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

The IT department of **Enterprise Solutions** is looking to establish a robust framework for managing and governing its information technology. They need a structured approach to ensure IT supports business objectives and manages risks effectively.

Which framework is specifically mentioned for use in IT governance?

- A. ISO 9001
 - B. IFRS
 - C. GAAP
 - D. COBIT 2019 Framework
-

Question 2

A junior auditor at **AuditPro Associates** is being trained on the common software tools used in their firm. The trainer mentions several widely adopted applications that assist in various audit tasks, from data analysis to engagement management.

Which of the following is listed as a common audit tool in the Topic Summary?

- A. SAP ERP
 - B. Adobe Photoshop
 - C. Microsoft Word
 - D. CaseWare IDEA
-

Question 3

SecureData Solutions is training its employees on the fundamental requirements for handling personal data under the **Nigerian Data Protection Regulation (NDPR) 2019**. A key point of emphasis is that any data collected must have a legitimate and clearly defined reason for its collection.

Which governing principle of personal data processing under the **NDPR 2019** is being emphasized regarding the legitimate and clearly defined reason for data collection?

- A. Data must be processed by a licensed DPCO.
- B. Data must be collected for specific lawful purposes.

- C. Data must be adequate/accurate.
 - D. Data must be secured against breaches.
-

Question 4

DataFlow Solutions processed personal data for 2,500 unique data subjects during the 2023 calendar year. As a result, they are required to submit an annual Data Protection Audit Report. The company completed the report preparation in February 2024.

By what specific date must **DataFlow Solutions** submit its annual Data Protection Audit Report for the 2023 calendar year, according to the **Nigerian Data Protection Regulation (NDPR) 2019** ?

- A. December 31st, 2023
 - B. January 15th, 2024
 - C. March 15th, 2024
 - D. April 30th, 2024
-

Question 5

On January 10, 2024, at 10:00 AM, **SwiftLogistics Ltd.** discovered a data breach affecting personal data. The IT security team immediately began an investigation to understand the scope and impact. The company's legal team advised on the urgency of reporting the breach to the relevant authorities as per regulatory requirements.

According to the **Nigerian Data Protection Regulation (NDPR) 2019** , by what specific time and date must **SwiftLogistics Ltd.** report this data breach?

- A. January 14, 2024, by 10:00 AM
 - B. January 13, 2024, by 10:00 AM
 - C. January 12, 2024, by 10:00 AM
 - D. January 11, 2024, by 10:00 AM
-

Question 6

DataSecure Corp. , a company that processes personal data for over 5,000 data subjects, has completed its annual Data Protection Audit Report for the year 2023. The report is due by March 15, 2024. The company's internal audit department prepared the report, but the board is aware that it needs external verification to be compliant.

According to the **Nigerian Data Protection Regulation (NDPR) 2019** , who must verify **DataSecure Corp.'s** annual Data Protection Audit Report before submission?

- A. The company's external financial auditor.

- **B.** The National Information Technology Development Agency (NITDA).
 - **C.** An independent cybersecurity consultant.
 - **D.** A licensed Data Protection Compliance Organisation (DPCO).
-

Question 7

RemoteVerify Audits is conducting an audit for a client with multiple warehouses. Due to travel restrictions, the audit team cannot physically be present for all inventory counts. They want a technology that allows their auditors to remotely observe and monitor physical counts being conducted by client staff in real-time.

Which technology allows auditors to remotely monitor physical counts conducted by client staff in real-time using augmented reality?

- **A.** Smart Glasses
 - **B.** Big Data Analytics
 - **C.** Robotic Process Automation (RPA)
 - **D.** Drone technology
-

Question 8

A client approaches **ForensicGuard Services** with a critical issue: a former employee is suspected of having illegally copied and distributed proprietary software code, leading to significant financial losses. The client needs to gather admissible electronic evidence to pursue legal action.

Which specific application of **Digital Forensics** is most relevant to investigating this scenario involving the illegal copying and distribution of proprietary software code?

- **A.** Contract disputes
 - **B.** Inventory counts
 - **C.** Ghost worker allegations
 - **D.** Intellectual Property (IP) theft
-

Question 9

PrivacyFirst Ltd. is developing a new mobile application that collects user data. The company's legal and IT teams are ensuring that their data processing practices comply with the **Nigerian Data Protection Regulation (NDPR) 2019**. They are particularly focused on ensuring that the data collected is relevant and sufficient for its stated purpose, and that it is kept up-to-date.

Which governing principle of personal data processing under the **NDPR 2019** are **PrivacyFirst Ltd.'s** teams primarily addressing by ensuring data is relevant, sufficient, and accurate?

- **A.** Data must be adequate/accurate.
 - **B.** Data must be collected for specific lawful purposes.
 - **C.** Data must be processed by a licensed DPCO.
 - **D.** Data must be secured against breaches.
-

Question 10

During the substantive testing phase of an audit, **Alpha Auditors** needs to confirm a large volume of accounts receivable balances directly with clients. Traditionally, this has been a manual and time-consuming process involving printing, mailing, and tracking responses. The audit team is looking for a more efficient and reliable method.

Which application of technology in auditing would best facilitate the efficient and reliable confirmation of accounts receivable balances during substantive testing?

- **A.** Evaluating internal controls using CAATs.
 - **B.** Using MSEXcel for complex pivot tables.
 - **C.** Automated circularization.
 - **D.** Implementing Gantt Chart software for timeline management.
-

Answer Key and Explanations

1. Correct Answer: D. COBIT 2019 Framework

- **Explanation:** The **COBIT 2019 Framework** is explicitly stated as being used for IT governance.

2. Correct Answer: D. CaseWare IDEA

- **Explanation:** **CaseWare IDEA** is explicitly listed as a common audit tool, alongside MSEXcel, ACL, and TeamMate.

3. Correct Answer: B. Data must be collected for specific lawful purposes.

- **Explanation:** One of the governing principles mandates that data must be **collected for specific lawful purposes**.

4. Correct Answer: C. March 15th, 2024

- **Explanation:** Organizations required to submit an annual Data Protection Audit Report must do so by **March 15th** of the following year.

5. Correct Answer: B. January 13, 2024, by 10:00 AM

- **Explanation:** Reports of breaches must be made within **72 hours**. 72 hours from January 10, 2024, 10:00 AM is January 13, 2024, 10:00 AM.

6. Correct Answer: D. A licensed Data Protection Compliance Organisation (DPCO).

- **Explanation:** The NDPR 2019 mandates that annual Data Protection Audit Reports must be verified by a licensed **Data Protection Compliance Organisation (DPCO)**.

7. Correct Answer: A. Smart Glasses

- **Explanation: Smart Glasses** (using augmented reality) are described as allowing auditors to remotely monitor physical counts conducted by client staff in real-time.

8. Correct Answer: D. Intellectual Property (IP) theft

- **Explanation:** Digital forensics is explicitly used for fraud investigations, **IP theft**, and contract disputes. The scenario directly describes intellectual property theft.

9. Correct Answer: A. Data must be adequate/accurate.

- **Explanation:** One of the governing principles of NDPR 2019 is that data must be **adequate/accurate**, which encompasses ensuring data is relevant, sufficient, and kept up-to-date.

10. Correct Answer: C. Automated circularization.

- **Explanation: Automated circularization** is a specific application of technology in substantive testing mentioned for efficiently confirming balances, such as accounts receivable.

Laws and Regulation on Audit and Assurance Engagement

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Tech Solutions Ltd. is finalizing its annual financial statements. The board of directors is discussing who should formally certify these statements before they are submitted to the regulators and shareholders.

According to FRC Rule 1, who is responsible for the certification of financial statements?

- **A.** The Company Secretary and the Head of Internal Audit.
 - **B.** All members of the Board of Directors.
 - **C.** The External Auditor and the Audit Committee Chairman.
 - **D.** The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).
-

Question 2

Corporate Solutions Inc., a registered corporate entity, offers a wide range of professional services, including audit. **Mega Enterprises PLC** is seeking to appoint an auditor and is considering **Corporate Solutions Inc.** due to its extensive resources and multidisciplinary expertise.

According to S403 CAMA 2020, is **Corporate Solutions Inc.** eligible to act as the auditor for **Mega Enterprises PLC** ?

- **A.** Yes, if it is a reputable and licensed audit firm.
 - **B.** No, unless it forms a joint audit with an individual auditor.
 - **C.** Yes, as long as its principals are qualified individual accountants.
 - **D.** No, because a body corporate is prohibited from acting as an auditor.
-

Question 3

New Horizon Innovations Ltd. was recently incorporated and is preparing to commence business operations. The directors are discussing the process of appointing their first external auditors. They are unsure whether this appointment requires an Annual General Meeting (AGM) or if they can proceed directly.

According to S401 CAMA 2020, who is responsible for appointing the first auditors of **New Horizon Innovations Ltd.** before the company commences business?

- **A.** The shareholders at the first Annual General Meeting.
 - **B.** The Financial Reporting Council of Nigeria.
 - **C.** The Corporate Affairs Commission.
 - **D.** The directors of the company.
-

Question 4

Synergy Holdings PLC has been audited by a joint audit team comprising **Firm A** and **Firm B** for the past 14 consecutive years. The board is planning for the next audit cycle and needs to ensure compliance with the specific rotation rules for joint audits.

Based on the Audit Regulation 2020, what is the maximum continuous period firms in a joint audit, such as **Firm A** and **Firm B** for **Synergy Holdings PLC**, must rotate after?

- **A.** 10 years
 - **B.** 5 years
 - **C.** 15 years
 - **D.** 20 years
-

Question 5

Horizon Manufacturing PLC's external auditors issued a financial statement with a modified opinion for the year ended December 31, 2023, due to significant uncertainties. The board of directors is discussing the next steps and the reporting obligations to regulatory bodies. They believe they have ample time to address the issues before submitting the report.

According to FRC Rule 5, within how many days must financial statements with modified opinions be submitted to the Financial Reporting Council (FRC)?

- A. 7 days
 - B. 30 days
 - C. 14 days
 - D. 60 days
-

Question 6

The Audit Committee members of **Evergreen Corporation PLC** have served for one year since their appointment. The board is preparing for the upcoming Annual General Meeting (AGM) and needs to address the status of the Audit Committee members.

According to the Audit Committee Format, what is the status of Audit Committee members regarding their tenure?

- A. They are appointed for the duration of the external auditor's tenure.
 - B. They are subject to annual re-election.
 - C. They are permanent appointments once approved.
 - D. They serve for a fixed term of three years.
-

Question 7

The Audit Committee members of **Innovate Tech PLC** have successfully completed their duties for the year, including reviewing the audit scope and overseeing internal controls. They are now expecting to receive remuneration for their services, similar to other board committees.

According to the Audit Committee Format, are the members of **Innovate Tech PLC's** Audit Committee entitled to remuneration for their services?

- A. No, members are not entitled to remuneration.
 - B. Yes, they are entitled to remuneration as determined by the board.
 - C. Yes, they are entitled to a fixed allowance for attending meetings.
 - D. Yes, but only if approved by a special resolution of shareholders.
-

Question 8

Family Business Ltd., a private company, is considering appointing Mr. Chike as its auditor. Mr. Chike's wife holds a significant number of shares in **Family Business Ltd.**, making her a shareholder. Mr. Chike believes his professional independence is not compromised.

According to S403 CAMA 2020, is Mr. Chike eligible to act as the auditor for **Family Business Ltd.** given his wife's shareholding?

- **A.** Yes, as long as the shares are not directly owned by him.
 - **B.** No, but only if his wife's shareholding exceeds a certain percentage.
 - **C.** No, because shareholders and their spouses are prohibited from acting as auditors.
 - **D.** Yes, because it is a private company and the rules are less strict.
-

Question 9

Global Ventures PLC paid its external auditors, **Integrity Audit Firm**, an annual audit fee of ₦15,000,000 for the year ended December 31, 2023. During the same period, **Integrity Audit Firm** also provided tax advisory services and financial due diligence services to **Global Ventures PLC**, for which they charged ₦10,000,000 and ₦3,000,000 respectively. The company needs to ensure compliance with FRC rules regarding non-audit fees.

Based on FRC Rule 3, what is the maximum permissible amount of non-audit fees **Integrity Audit Firm** could have charged **Global Ventures PLC** for the year, to remain compliant?

- **A.** ₦15,000,000
 - **B.** ₦10,000,000
 - **C.** ₦12,000,000
 - **D.** ₦18,750,000
-

Question 10

Heritage Foods PLC's external auditor, Mr. Obi, suddenly passed away during the financial year, creating a casual vacancy. The remaining auditor, Ms. Ada, is competent and willing to continue. The board is deliberating on how to proceed with the audit for the current year.

According to S401 CAMA 2020, what is the immediate course of action regarding the casual vacancy for auditors at **Heritage Foods PLC** ?

- **A.** The directors are prohibited from filling the vacancy until the next Annual General Meeting.
- **B.** The surviving auditor, Ms. Ada, may continue to act while the vacancy exists.
- **C.** The company must immediately call an Extraordinary General Meeting to appoint a new auditor.
- **D.** The Financial Reporting Council must appoint an interim auditor.

Answer Key and Explanations

1. Correct Answer: D. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

- **Explanation:** FRC Rule 1 requires the certification of financial statements by the **CEO and CFO**.

2. Correct Answer: D. No, because a body corporate is prohibited from acting as an auditor.

- **Explanation:** S403 CAMA 2020 explicitly prohibits a **body corporate** from acting as an auditor of a company.

3. Correct Answer: D. The directors of the company.

- **Explanation:** CAMA 2020 states that **first auditors** may be appointed by **directors** before the company commences business.

4. Correct Answer: C. 15 years

- **Explanation:** The Audit Regulation 2020 specifies that firms in a **joint audit** must rotate after a continuous period of **15 years**.

5. Correct Answer: B. 30 days

- **Explanation:** FRC Rule 5 mandates that financial statements with **modified opinions** must be submitted to the Council within **30 days**.

6. Correct Answer: B. They are subject to annual re-election.

- **Explanation:** The Audit Committee Format states that members are not entitled to remuneration and are subject to **annual re-election**.

7. Correct Answer: A. No, members are not entitled to remuneration.

- **Explanation:** The Audit Committee Format clearly states that members are **not entitled to remuneration**.

8. Correct Answer: C. No, because shareholders and their spouses are prohibited from acting as auditors.

- **Explanation:** S403 CAMA 2020 explicitly prohibits **shareholders and their spouses** from acting as auditors.

9. Correct Answer: C. ₦12,000,000

- **Explanation:** FRC Rule 3 limits permissible non-audit fees to **80%** of the annual audit fee. 80% of ₦15,000,000 is **₦12,000,000**.

10. Correct Answer: B. The surviving auditor, Ms. Ada, may continue to act while the vacancy exists.

- **Explanation:** CAMA 2020 states that directors may fill any casual vacancy, but **surviving auditors may continue to act** while the vacancy exists.

Professional and Ethical Issues

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

The International Ethics Standards Board for Accountants (IESBA) Code of Ethics, localized in Nigeria as the ICAN Professional Code of Conduct, establishes five fundamental principles that every professional accountant must adhere to. These principles guide behavior and ensure professional integrity.

Which of the following is NOT one of the five fundamental principles?

- A. Objectivity
 - B. Transparency
 - C. Integrity
 - D. Confidentiality
-

Question 2

Success Auditors is negotiating an audit engagement with **Growth Ventures Ltd**. Growth Ventures Ltd proposes that the audit fee be calculated as a percentage of their reported profit, arguing that this aligns the auditor's interests with the client's success.

Is this proposed fee arrangement acceptable for an audit and reporting assignment under the ICAN Professional Code of Conduct?

- A. Yes, it can be acceptable if safeguards are applied, such as an independent review.
 - B. No, it creates an intimidation threat, as the auditor's fee depends on the client's profit.
 - C. Yes, it is acceptable as long as the percentage is reasonable and disclosed.
 - D. No, fees for audit and reporting assignments should generally not be based on a percentage or contingency calculation.
-

Question 3

Partnership Auditors is considering entering into a material joint venture with its audit client, **Innovate Solutions Ltd**, to develop a new software product. The joint venture would involve significant financial investment from both parties and a shared management structure for the new product line.

What ethical implication does this joint venture present for Partnership Auditors, and what is the appropriate action?

- A. It creates a self-interest or intimidation threat and is unacceptable.

- **B.** It is permissible if the audit team is completely separate from the joint venture management.
 - **C.** It creates a familiarity threat, which can be mitigated by using different audit staff.
 - **D.** It is permissible if the joint venture is disclosed to the audit committee and approved.
-

Question 4

Mr. Eze, a sole practitioner, completed an audit for **Small Business Ventures Ltd.** He has sent the final invoice, but the client has refused to pay, claiming the fee is excessive and disputing the quality of the work. Mr. Eze is currently holding some of the client's original accounting records, which he obtained lawfully during the audit.

Can Mr. Eze exercise a particular lien to retain these client books and records?

- **A.** Yes, because the documents were obtained lawfully and an invoice was sent.
 - **B.** No, because auditors are generally not permitted to retain client documents.
 - **C.** Yes, because he has a professional right to secure payment for services rendered.
 - **D.** No, because there is a dispute over the fee amount.
-

Question 5

The management of **FastTrack Logistics Plc**, an audit client, has repeatedly threatened to replace **Premier Auditors** if they do not issue an unqualified audit opinion, despite ongoing disagreements about the valuation of certain assets. The audit partner feels pressured to concede to management's demands to retain the client.

What ethical threat is most evident in this scenario?

- **A.** Advocacy Threat
 - **B.** Intimidation Threat
 - **C.** Self-review Threat
 - **D.** Self-interest Threat
-

Question 6

Mr. Emeka, a professional accountant, is preparing financial statements for his client. He discovers an error that, if corrected, would significantly reduce the client's reported profit. The client's CEO pressures Mr. Emeka to ignore the error, suggesting it's minor and would cause unnecessary concern among investors. Mr. Emeka insists on correcting the error, stating that the financial statements must present a true and fair view.

Which fundamental principle is Mr. Emeka primarily upholding in this situation?

- **A.** Professional Behaviour
- **B.** Professional Competence and Due Care

- C. Objectivity
 - D. Integrity
-

Question 7

Dynamic Auditors is the auditor for **First Capital Bank Plc**, a public interest entity. The audit partner, Mr. Tunde, recently obtained a personal loan from First Capital Bank Plc for the purchase of a new car. The loan was granted under the bank's standard employee loan scheme, which offers slightly preferential interest rates compared to market rates for non-employees, but is available to all bank employees and their immediate family members.

Is this loan permissible under the ICAN Professional Code of Conduct, and what ethical threat, if any, arises?

- A. The loan is permissible as it is from a bank client, and no threat arises.
 - B. The loan is prohibited, regardless of terms, as it creates an intimidation threat.
 - C. The loan is prohibited because it is not on strictly normal commercial terms, creating an unacceptable self-interest threat.
 - D. The loan is permissible if made on normal commercial terms, but the preferential rate creates a self-interest threat requiring safeguards.
-

Question 8

Global Assurance Firm is the auditor for **MegaCorp Plc**, a public interest entity. MegaCorp Plc has requested Global Assurance Firm to provide routine bookkeeping services, including processing payroll and maintaining the general ledger, as their internal accounting department is currently understaffed. The firm proposes to use staff members who are not part of the audit team for these services.

Is it permissible for Global Assurance Firm to provide these bookkeeping services to MegaCorp Plc under the ICAN Professional Code of Conduct?

- A. Yes, it is permissible if the services are routine and performed by non-audit team members.
 - B. No, it is strictly prohibited for public interest entity clients.
 - C. No, it is prohibited because it creates a self-review threat, even with different staff.
 - D. Yes, it is permissible as long as management takes responsibility for the financial statements.
-

Question 9

Global Audit Firm is the auditor for **International Holdings Plc**, a public interest entity. Ms. Clara, a key audit partner, has been involved in the audit for seven consecutive years, completing the audit for the 2023 financial statements. The firm operates globally and adheres to IESBA regulations for its PIE clients.

For which financial year's audit must Ms. Clara rotate off the engagement, according to IESBA regulations?

- A. 2024 financial statements
 - B. 2023 financial statements
 - C. 2025 financial statements
 - D. 2026 financial statements
-

Question 10

NewEra Auditors, a relatively new firm, is aggressively trying to expand its client base. To win the audit engagement for **Growth Enterprises Ltd**, they quote a fee that is significantly lower than the fees quoted by other established audit firms, barely covering their direct costs.

What ethical concern does this practice of 'lowballing' primarily raise?

- A. It is a threat to objectivity and professional competence.
 - B. It creates a familiarity threat, as the low fee might lead to a closer relationship.
 - C. It creates an advocacy threat, as the firm is promoting the client's financial position.
 - D. It is generally acceptable as a competitive business strategy.
-

Answer Key and Explanations

1. Correct Answer: B. Transparency

- **Explanation:** The five fundamental principles are **Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, and Professional Behaviour**. Transparency is not one of them.

2. Correct Answer: D. No, fees for audit and reporting assignments should generally not be based on a percentage or contingency calculation.

- **Explanation:** Fees for audit and reporting assignments should generally **not be based on a percentage or contingency calculation**, as this creates a significant self-interest threat.

3. Correct Answer: A. It creates a self-interest or intimidation threat and is unacceptable.

- **Explanation:** Material joint ventures with clients represent **self-interest or intimidation threats** and are explicitly stated as **unacceptable**.

4. Correct Answer: D. No, because there is a dispute over the fee amount.

- **Explanation:** For a valid lien, there must be **no dispute over the fee amount**. Since the client is disputing the fee, Mr. Eze cannot validly exercise a lien.

5. Correct Answer: B. Intimidation Threat

- **Explanation:** An **intimidation threat** occurs when an accountant is deterred from acting objectively by threats, such as a threat of replacement.

6. Correct Answer: D. Integrity

- **Explanation: Integrity** requires being straightforward and honest. By insisting on correcting the error despite pressure, Mr. Emeka upholds integrity.

7. Correct Answer: C. The loan is prohibited because it is not on strictly normal commercial terms, creating an unacceptable self-interest threat.

- **Explanation:** Loans from a bank client are permissible only if made on **normal commercial terms**. Preferential rates are not on normal terms, creating an unacceptable self-interest threat.

8. Correct Answer: B. No, it is strictly prohibited for public interest entity clients.

- **Explanation:** Accounting and bookkeeping services are **strictly prohibited for public interest entity (PIE) clients**. Exceptions for non-PIE clients do not apply to PIEs.

9. Correct Answer: A. 2024 financial statements

- **Explanation:** A key audit partner must rotate after **no more than seven years**. Having completed seven years with the 2023 audit, Ms. Clara must rotate off for the **2024 audit**.

10. Correct Answer: A. It is a threat to objectivity and professional competence.

- **Explanation:** Quoting a fee significantly lower than others to win an audit (**lowballing**) is identified as a **threat to objectivity and professional competence**.

Professional Responsibility and Liability

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

An auditor, **Mr. Obi**, was found to have knowingly participated in the falsification of accounting records for a client company, leading to a fraudulent misrepresentation of its financial health. This action was deliberate and intended to deceive investors.

For which specific illegal act, leading to criminal prosecution, could Mr. Obi be held liable?

- **A.** Negligence under the law of tort to third parties.
 - **B.** Breach of contract with the client company.
 - **C.** Involvement in fraud or falsifying accounting records.
 - **D.** Failure to exercise professional skepticism.
-

Question 2

An auditor discovers that **Tech Solutions Inc.** accidentally miscalculated its depreciation expense for the year due to a clerical error in applying the depreciation rate. This led to a material misstatement in the financial statements.

This situation is best described as an example of what, according to ISA 240?

- **A.** Fraud
 - **B.** Error
 - **C.** Falsification of records
 - **D.** Misappropriation of assets
-

Question 3

Integrity Audit Firm is a well-established practice in Nigeria. The partners are keen to ensure that the firm is adequately protected against potential civil liabilities arising from claims of negligence in their audit work.

Which protective measure is mandatory for audit firms in Nigeria to cover civil liabilities?

- **A.** Obtaining Professional Indemnity Insurance (PII).
 - **B.** Including disclaimers in all audit reports.
 - **C.** Implementing liability caps with all clients.
 - **D.** Structuring the firm as a Limited Liability Partnership (LLP).
-

Question 4

During the audit of **Elite Services Ltd.**, the auditors, **Prime Audit Partners**, discover compelling evidence of a material fraud. Further investigation reveals that the fraud involves the Chief Financial Officer (CFO) and potentially other members of senior management.

Given the involvement of senior management in the suspected fraud, what specific action should Prime Audit Partners consider, according to ISA 240 guidelines?

- **A.** Discuss the findings directly with the CFO to understand their perspective.
 - **B.** Immediately report the fraud to the police without further internal discussion.
 - **C.** Seek legal advice due to the involvement of management in the fraud.
 - **D.** Conclude the audit and issue a qualified opinion without further action.
-

Question 5

An auditor discovers that a company's sales manager intentionally recorded fictitious sales transactions to meet quarterly targets, leading to an overstatement of revenue.

This intentional act of misstatement is classified as what, according to ISA 240?

- **A.** Oversight
 - **B.** Fraud
 - **C.** Error
 - **D.** Misinterpretation
-

Question 6

An auditor, **Mr. Kunle**, was found to have used price-sensitive information obtained during an audit engagement to trade shares of the client company for personal profit. This action is a serious breach of professional conduct and potentially illegal.

Which specific illegal act, leading to criminal prosecution, has Mr. Kunle most likely committed?

- **A.** Money laundering.
 - **B.** Insider Dealing.
 - **C.** Accepting an appointment without being qualified.
 - **D.** Falsifying accounting records.
-

Question 7

The audit committee of **Nexus Holdings Plc** is reviewing the performance of its external auditors, **Sterling & Co.** They are particularly interested in understanding the legal standard of care expected of auditors in Nigeria.

According to CAMA 2020 S415, what degree of care, diligence, and skill is a company's auditor required to exercise in the performance of their duties?

- **A.** The highest possible degree of care, diligence, and skill.
 - **B.** Only the minimum care required to issue an opinion.
 - **C.** All such care, diligence, and skill as is reasonably necessary in each particular circumstance.
 - **D.** The same degree of care as a non-professional person.
-

Question 8

The partners of **Dynamic Auditors** are exploring ways to structure their firm to protect their personal assets from potential large claims of negligence against the firm. They want to ensure that individual partners are not held personally liable beyond their fixed capital contributions.

Which protective measure would best achieve the partners' objective of limiting their personal liability to their fixed capital?

- **A.** Structuring the firm as a Limited Liability Partnership (LLP).
 - **B.** Obtaining comprehensive Professional Indemnity Insurance (PII).
 - **C.** Negotiating liability caps with all clients.
 - **D.** Including disclaimers in all audit reports.
-

Question 9

Mr. Emeka, an auditor, is facing legal action. One claim is from his client company for negligent performance of the audit, leading to financial loss. Another claim is from the regulatory body for accepting an audit appointment without holding the required professional qualification.

How would these two distinct claims against Mr. Emeka typically be categorized under auditor liability?

- **A.** Both are instances of civil liability under contract law.
 - **B.** The claim from the client is civil (contract), and the claim from the regulatory body is criminal.
 - **C.** The claim from the client is civil (tort), and the claim from the regulatory body is civil (contract).
 - **D.** Both are instances of criminal liability.
-

Question 10

The auditors of **Heritage Manufacturing Plc** failed to detect a sophisticated scheme of falsified invoices over several years, which materially misstated the company's financial position. The auditors argued that they were not "bloodhounds" and could not be expected to uncover such deep-seated fraud.

How did the precedent set by *Re Thomas Gerrard* generally impact the auditor's responsibility in such a situation, compared to earlier "watchdog" principles?

- **A.** It established that auditors are only liable if they were complicit in the fraud.
 - **B.** It signaled a shift towards higher expectations, holding auditors liable for failing to detect such falsifications.
 - **C.** It reinforced the "watchdog, not a bloodhound" principle, absolving auditors.
 - **D.** It limited auditor liability to only the contracting party.
-

Answer Key and Explanations

1. Correct Answer: C. Involvement in fraud or falsifying accounting records.

- **Explanation: Involvement in fraud or falsifying accounting records** is explicitly listed as a specific illegal act that can lead to criminal prosecution for auditors.

2. Correct Answer: B. Error

- **Explanation:** An unintentional mistake or misinterpretation, such as a clerical error, is defined as an **error**, distinct from fraud which involves intentional acts.

3. Correct Answer: A. Obtaining Professional Indemnity Insurance (PII).

- **Explanation: Professional Indemnity Insurance (PII)** is a mandatory insurance that covers civil liabilities, ensuring an audit firm can meet large damages claims.

4. Correct Answer: C. Seek legal advice due to the involvement of management in the fraud.

- **Explanation:** When management is involved in fraud, the auditor should **seek legal advice**, as discussing it with involved parties could compromise the investigation.

5. Correct Answer: B. Fraud

- **Explanation: Fraud** is defined as intentional acts, such as the falsification of records or misappropriation of assets.

6. Correct Answer: B. Insider Dealing.

- **Explanation:** Using or passing on price-sensitive inside information for personal gain is known as **insider dealing**, a specific illegal act leading to criminal prosecution.

7. Correct Answer: C. All such care, diligence, and skill as is reasonably necessary in each particular circumstance.

- **Explanation:** CAMA 2020 S415 requires an auditor to "**exercise all such care, diligence, and skill as is reasonably necessary in each particular circumstance.**"

8. Correct Answer: A. Structuring the firm as a Limited Liability Partnership (LLP).

- **Explanation:** Structuring the firm as a **Limited Liability Partnership (LLP)** is a protective measure designed so partners cannot lose more than their fixed capital.

9. Correct Answer: B. The claim from the client is civil (contract), and the claim from the regulatory body is criminal.

- **Explanation:** A client claim for negligence is a **civil claim under contract law**. Accepting an appointment without being qualified is a specific illegal act leading to **criminal prosecution**.

10. Correct Answer: B. It signaled a shift towards higher expectations, holding auditors liable for failing to detect such falsifications.

- **Explanation:** The *Re Thomas Gerrard* case signaled a shift toward **higher expectations**, holding auditors liable for failing to detect falsified invoices over several years.

Quality Management for Professional Firms and Engagements

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Horizon Accountants completed the audit of **Coastal Shipping Ltd.** for the financial year ended December 31, 2023, with the audit report signed on April 10, 2024. The firm needs to ensure compliance with documentation retention requirements.

For how long, at a minimum, must **Horizon Accountants** retain the audit documentation for **Coastal Shipping Ltd.** ?

- **A.** Three years from the report date.
 - **B.** Ten years from the report date.
 - **C.** Five years from the report date.
 - **D.** Seven years from the report date.
-

Question 2

An audit engagement for **GreenLeaf Enterprises** was completed, and the audit report was signed on March 15, 2024. The engagement team is now in the process of compiling all necessary documentation into the final audit file.

By what date, at the latest, must the final audit file for **GreenLeaf Enterprises** be assembled according to professional standards?

- **A.** June 13, 2024
 - **B.** May 14, 2024
 - **C.** July 15, 2024
 - **D.** April 15, 2024
-

Question 3

Alpha Audit Services is preparing an engagement letter for a new client, **Innovate Solutions Ltd.** The firm wants to ensure the letter clearly defines the scope of their responsibilities and those of management.

Which of the following is a mandatory element that must be included in the engagement letter according to ISA 210?

- **A.** A detailed list of all audit procedures to be performed.
- **B.** A guarantee of an unmodified audit opinion.

- **C.** The specific names of all audit team members.
 - **D.** The expected form and content of any reports.
-

Question 4

The Institute of Chartered Accountants of Nigeria (ICAN) emphasizes certain fundamental expectations for its members when performing professional work. A newly qualified accountant, Mr. Obi, is preparing for his first audit engagement.

Which core principle does ICAN require its members to uphold when performing work?

- **A.** To perform work with due skill, care, and technical competence.
 - **B.** To minimize audit fees for all clients.
 - **C.** To guarantee the detection of all fraud.
 - **D.** To prioritize client satisfaction above all else.
-

Question 5

The partners at **Synergy Audit Firm** are committed to maintaining high quality across all engagements. To achieve this, they regularly assign one partner to review the work of another partner on a completed engagement, focusing on the application of firm policies and professional standards.

What type of review is being conducted by **Synergy Audit Firm** in this scenario?

- **A.** Hot Review.
 - **B.** External Regulatory Review.
 - **C.** Engagement Quality Control Review (EQCR).
 - **D.** Peer Review.
-

Question 6

Digital Assurance Inc., an audit firm, is concerned about the integrity of its internal information systems used for quality management, especially regarding data security and reliability of audit software. The firm wants to adopt a recognized framework to govern its IT risks.

Which governance tool is specifically mentioned as useful for managing IT risks and ensuring the integrity of information systems?

- **A.** Sarbanes-Oxley Act (SOX).
- **B.** COBIT Framework.
- **C.** ISO 9001.

- **D.** Generally Accepted Accounting Principles (GAAP).
-

Question 7

Connect Accountants, an audit firm, has an agreement with a business consultant, **BizGrow Solutions**. For every client **BizGrow Solutions** refers to **Connect Accountants** for audit services, **Connect Accountants** pays **BizGrow Solutions** a percentage of the first year's audit fee.

What is the professional stance on this practice for Chartered Accountants in Nigeria?

- **A.** It is permissible if the fee is reasonable.
 - **B.** Chartered Accountants in Nigeria are prohibited from paying or receiving referral fees to obtain a client.
 - **C.** It is permissible if disclosed to the client.
 - **D.** It is permissible only for non-audit services.
-

Question 8

Bold & Bright Accountants launches a new advertising campaign to attract clients. Their advertisements claim they are 'Nigeria's #1 audit firm, guaranteeing zero errors and faster audits than any competitor,' and they also include a direct comparison disparaging a rival firm's services.

Which professional conduct rule regarding advertising is **Bold & Bright Accountants** most likely violating?

- **A.** The rule against paying referral fees.
 - **B.** The rule that advertising must not bring the profession into disrepute, make exaggerated claims, or disparage other firms.
 - **C.** The rule requiring an engagement letter for all services.
 - **D.** The rule against accepting contingent fees.
-

Question 9

A junior auditor at **Trustworthy Audits** is assigned to perform substantive testing on trade receivables for a new client. The engagement partner has provided general instructions but has not assigned a senior auditor to directly oversee the junior's work or review the detailed working papers before they are finalized.

Which aspect of engagement-level quality control, as per ISA 220, is most likely to be compromised in this scenario?

- **A.** Sufficient appropriate evidence being obtained.
- **B.** Proper direction, supervision, and review of the audit work.
- **C.** Compliance with ethical and independence requirements.

- **D.** The audit team possessing appropriate competence.
-

Question 10

Global Auditors is performing the annual audit for **Premier Bank Plc**, a listed entity. Due to the high public interest and complexity, the firm has designated this engagement as high-risk. The engagement partner is nearing the completion of the audit and is preparing for the final sign-off.

Which specific type of review is mandatory for this engagement before the audit report can be signed?

- **A.** Engagement Quality Control Review (EQCR).
 - **B.** Monitoring (Cold) Review.
 - **C.** Peer Review.
 - **D.** Internal Audit Review.
-

Answer Key and Explanations

1. Correct Answer: C. Five years from the report date.

- **Explanation:** Audit documentation must be retained for at least **five years from the date of the audit report**.

2. Correct Answer: B. May 14, 2024

- **Explanation:** The final audit file must be assembled within a timely basis, usually **no more than 60 days after the audit report date**. 60 days from March 15, 2024, is **May 14, 2024**.

3. Correct Answer: D. The expected form and content of any reports.

- **Explanation:** The engagement letter must include mandatory elements, including the **expected form and content of any reports**.

4. Correct Answer: A. To perform work with due skill, care, and technical competence.

- **Explanation:** Professional bodies require members to **perform all work with due skill, care, and technical competence**.

5. Correct Answer: D. Peer Review.

- **Explanation:** A **peer review** involves an independent review of an engagement by another partner within the same firm.

6. Correct Answer: B. COBIT Framework.

- **Explanation:** The **COBIT Framework** is a widely recognized governance tool specifically designed for managing IT risks and ensuring information system integrity.

7. Correct Answer: B. Chartered Accountants in Nigeria are prohibited from paying or receiving referral fees to obtain a client.

- **Explanation:** Professional ethical guidelines explicitly prohibit the **payment or receipt of referral fees** to obtain clients.

8. Correct Answer: B. The rule that advertising must not bring the profession into disrepute, make exaggerated claims, or disparage other firms.

- **Explanation:** Professional conduct rules prohibit **exaggerated claims, guaranteeing specific outcomes, or disparaging other firms.**

9. Correct Answer: B. Proper direction, supervision, and review of the audit work.

- **Explanation:** Lack of direct oversight compromises the engagement partner's responsibility for **proper direction, supervision, and review.**

10. Correct Answer: A. Engagement Quality Control Review (EQCR).

- **Explanation:** For listed entities or high-risk assignments, an **Engagement Quality Control Review (EQCR)** is mandatory before the audit report can be signed.

The Audit Approach

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

An audit engagement team is in the initial planning phase for a new client. The team is discussing the overall approach they will take to gather sufficient evidence to form an opinion on the financial statements.

What does this overall approach represent in the context of an audit?

- **A.** The audit report.
 - **B.** The detailed audit plan.
 - **C.** The audit program.
 - **D.** The audit strategy.
-

Question 2

SecureVault Bank stores all its physical cash reserves in a reinforced vault with restricted access, monitored by security cameras and alarm systems.

This measure is an example of which type of internal control?

- **A.** Physical Control

- **B.** Segregation of Duties
 - **C.** Authorization Control
 - **D.** Accounting Control
-

Question 3

The accounting software used by **Calculus Logistics** automatically performs a check to ensure that the total of individual invoice lines matches the invoice total before posting.

This automated check is an example of which type of internal control?

- **A.** Management Control
 - **B.** Arithmetic Control
 - **C.** Authorization Control
 - **D.** Physical Control
-

Question 4

The management of **ProfitPath Enterprises** reviews monthly budget-to-actual reports, investigating significant variances and taking corrective actions where necessary.

This supervisory review and variance analysis activity is an example of which type of internal control?

- **A.** Authorization Control
 - **B.** Physical Control
 - **C.** Segregation of Duties
 - **D.** Management Control
-

Question 5

An auditor for **Local Artisans Co-op** identified a minor risk related to occasional misposting of small, non-material expenses by a junior clerk. The likelihood of this error occurring is considered **Low**, and its financial impact, even if it happens, is also deemed **Low**.

Based on the risk evaluation and ranking format, how should this risk be categorized in terms of audit emphasis?

- **A.** Category 1 (High Likelihood, High Impact); receives the most audit emphasis.
- **B.** Category 2 (Mixed Likelihood/Impact); priority depends on professional judgment.
- **C.** Category 4 (Low Likelihood, Low Impact); receives the least emphasis.
- **D.** Category 3 (Mixed Likelihood/Impact); priority depends on professional judgment.

Question 6

At **ProcureRight Ltd.**, all purchase orders exceeding ₦500,000 must be reviewed and signed off by the Head of Department before being sent to suppliers.

This control activity is an example of which type of internal control?

- **A.** Arithmetic Control
 - **B.** Management Control
 - **C.** Physical Control
 - **D.** Authorization Control
-

Question 7

LedgerLink Services regularly prepares bank reconciliations, comparing the company's cash book balance with the bank statement balance to identify and investigate any discrepancies.

This control activity primarily serves as an example of which type of internal control?

- **A.** Physical Control
 - **B.** Authorization Control
 - **C.** Arithmetic Control
 - **D.** Accounting Control
-

Question 8

The owner-manager of **Sole Proprietor Services** has established a policy requiring all significant expenses to be approved. However, the auditor observes instances where the owner-manager bypasses this approval process for personal expenses, which are then recorded as business expenses.

This scenario illustrates a key audit challenge in smaller entities related to what?

- **A.** Informal records.
 - **B.** Remuneration vs. profit considerations.
 - **C.** Management override.
 - **D.** Weak segregation of duties.
-

Question 9

The management of **Proactive Ventures Ltd.** regularly holds meetings to identify potential business risks, such as market downturns or operational failures, and then evaluates their significance and develops strategies to mitigate them.

This ongoing activity by management is a key component of the internal control system, specifically known as what?

- **A.** The information system.
 - **B.** Control activities.
 - **C.** The control environment.
 - **D.** The entity's risk assessment process.
-

Question 10

Consultancy Hub Ltd. is a small consulting firm where the owner-manager draws a substantial salary and bonuses, often adjusting these amounts to minimize the reported profit before tax. The auditor is determining materiality for the financial statements.

When auditing **Consultancy Hub Ltd.**, what specific consideration related to profit before tax and owner-manager remuneration should the auditor be mindful of when setting materiality benchmarks?

- **A.** The need to apply a higher materiality threshold due to the owner-manager's influence.
 - **B.** The requirement to ignore owner-manager remuneration when calculating profit before tax.
 - **C.** That owner-manager remuneration is always a non-material item.
 - **D.** That profit before tax may be negligible because it is taken out as owner-manager remuneration, requiring different materiality benchmarks.
-

Answer Key and Explanations

1. Correct Answer: D. The audit strategy.

- **Explanation:** An **audit strategy** represents the overall approach an auditor selects for an audit, defining the scope, timing, and direction of the audit.

2. Correct Answer: A. Physical Control

- **Explanation: Physical Controls** are designed to safeguard assets from theft, damage, or unauthorized use. Storing cash in a reinforced vault is a classic example.

3. Correct Answer: B. Arithmetic Control

- **Explanation: Arithmetic Controls** check the mathematical accuracy of processing. An automated check ensuring invoice line totals match the invoice total is a direct application.

4. Correct Answer: D. Management Control

- **Explanation: Management Controls** include supervisory reviews, variance analysis, and budgetary control. Reviewing budget-to-actual reports is a direct example.

5. Correct Answer: C. Category 4 (Low Likelihood, Low Impact); receives the least emphasis.

- **Explanation:** Category 4 risks are those with **Low Likelihood and Low Impact**. These risks receive the **least audit emphasis**.

6. Correct Answer: D. Authorization Control

- **Explanation: Authorization Controls** ensure that significant transactions are approved by appropriate managers. A Head of Department signing off on purchase orders is a direct example.

7. Correct Answer: D. Accounting Control

- **Explanation: Accounting Controls** involve using reconciliations (e.g., control accounts) to ensure completeness and accuracy of recorded transactions.

8. Correct Answer: C. Management override.

- **Explanation: Management override** is a significant challenge in smaller entities, where the owner-manager has the power to bypass any established controls.

9. Correct Answer: D. The entity's risk assessment process.

- **Explanation:** The **entity's risk assessment process** involves management identifying, evaluating, and responding to business risks relevant to achieving objectives.

10. Correct Answer: D. That profit before tax may be negligible because it is taken out as owner-manager remuneration, requiring different materiality benchmarks.

- **Explanation:** In smaller entities, profit before tax may be negligible as it is often taken out as owner-manager remuneration, requiring different materiality benchmarks.

Planning

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

MegaCorp Holdings has **total assets** of ₦5,000,000,000. The audit firm's policy for determining overall **materiality** uses a benchmark range of 1% to 2% of **total assets**. For this engagement, the audit partner decides to use the midpoint of this range.

What is the overall **materiality** threshold set for **MegaCorp Holdings** based on the audit partner's decision?

- **A.** ₦100,000,000
- **B.** ₦50,000,000

- C. ₱150,000,000
 - D. ₱75,000,000
-

Question 2

Horizon Manufacturing Ltd. reported a **pretax profit** of ₱250,000,000 for the year. The audit firm typically uses a benchmark range of 5% to 10% of **pretax profit** for determining overall **materiality**. The engagement partner decides to set **materiality** at the higher end of this range due to the company's complex revenue recognition policies.

What is the overall **materiality** threshold set for **Horizon Manufacturing Ltd.** based on the engagement partner's decision?

- A. ₱2,500,000
 - B. ₱25,000,000
 - C. ₱12,500,000
 - D. ₱50,000,000
-

Question 3

The auditor for **Global Logistics Ltd.** has assessed the **inherent risk** for inventory valuation at 75% due to the complexity of their supply chain. The **control risk** is assessed at 50% due to some identified weaknesses in inventory management controls. The auditor plans for a **detection risk** of 20% by performing extensive substantive procedures.

Based on these assessments, what is the overall **audit risk** for inventory valuation? (Round to two decimal places).

- A. 25.00%
 - B. 7.50%
 - C. 15.00%
 - D. 37.50%
-

Question 4

The audit engagement for **Swift Logistics Co.** has a strict deadline for reporting to stakeholders. The audit manager is ensuring that all key dates and milestones are clearly laid out for the team.

Which core component of the **Audit Strategy Memorandum** would explicitly detail the audit timetable and critical reporting deadlines?

- A. Summary of key financial and nonfinancial ratios from previous periods.

- **B.** The audit timetable and critical reporting deadlines.
 - **C.** Identification of potential problem areas and the proposed audit approach.
 - **D.** Physical attendance locations if the client has multiple branches.
-

Question 5

The audit team for **Pioneer Innovations** has completed the initial draft of the **Audit Strategy Memorandum**. Before proceeding with the detailed audit plan, the document needs formal approval.

Who is primarily responsible for reviewing and approving the **Audit Strategy Memorandum**?

- **A.** The client's Chief Financial Officer.
 - **B.** The external regulatory body.
 - **C.** The audit engagement partner.
 - **D.** The junior auditor assigned to the engagement.
-

Question 6

A new audit assistant is learning about the fundamental concepts of auditing. The audit manager is explaining the concept of **audit risk** and why it's crucial to manage it.

What is the definition of **audit risk**?

- **A.** The risk that the client's internal controls fail to prevent misstatements.
 - **B.** The probability of the client going out of business.
 - **C.** The risk that the auditor will not be paid for their services.
 - **D.** The chance that the auditor reaches an inappropriate conclusion on the area under audit.
-

Question 7

A new audit trainee is learning about the foundational standards for audit planning. They are introduced to **ISA 300** and its role in guiding the auditor's initial steps.

What is the primary focus of **ISA 300** in the context of an audit engagement?

- **A.** Establishing the auditor's ethical responsibilities.
 - **B.** Reporting on internal control deficiencies.
 - **C.** Developing an overall strategy and a detailed audit plan.
 - **D.** Evaluating the client's going concern assumption.
-

Question 8

The IT audit specialist on the team is explaining the importance of the **COBIT Framework** to a new team member. The client, **TechSolutions Ltd.**, relies heavily on its IT systems for financial reporting, and the auditor needs to understand the IT governance structure.

What is the primary purpose of the **COBIT Framework** in the context of IT governance?

- **A.** To replace the need for human auditors in IT environments.
 - **B.** To provide a detailed list of all possible application controls.
 - **C.** To automate all audit procedures for IT systems.
 - **D.** To bridge the gap between business risks and technical issues.
-

Question 9

An audit firm is undertaking a sustainability assurance engagement for **Eco-Friendly Enterprises**. The engagement involves reviewing the company's ESG performance. The team is currently in the phase of gathering information about the company's environmental footprint and social impact.

Which step in the **process for Sustainability Reporting** involves gathering data on ESG impacts using professional skepticism?

- **A.** Evaluate the organisation's sustainability policies against standards.
 - **B.** Maintain documentation on misstatements and control deficiencies.
 - **C.** Identify scope and objectives.
 - **D.** Gather data on ESG impacts using professional skepticism.
-

Question 10

During the planning phase of an audit for **Global Ventures Ltd.**, the audit team is discussing the concept of **materiality**. The engagement partner emphasizes its importance in determining the scope of audit procedures and evaluating misstatements.

According to auditing principles, what is the primary characteristic that defines **materiality**?

- **A.** The absolute monetary value of an item, regardless of context.
 - **B.** The auditor's professional judgment on the complexity of transactions.
 - **C.** The total value of assets reported on the balance sheet.
 - **D.** Information whose omission or misstatement could influence the economic decisions of users.
-

Answer Key and Explanations

1. Correct Answer: D. ₦75,000,000

- **Explanation:** Midpoint = $(1\% + 2\%) / 2 = 1.5\%$. Materiality = 1.5% of ₦5,000,000,000 = **₦75,000,000**.

2. Correct Answer: B. ₦25,000,000

- **Explanation:** Higher end of range = 10%. Materiality = 10% of ₦250,000,000 = **₦25,000,000**.

3. Correct Answer: B. 7.50%

- **Explanation:** Audit Risk (AR) = Inherent Risk (IR) × Control Risk (CR) × Detection Risk (DR) = $0.75 \times 0.50 \times 0.20 = 7.50\%$.

4. Correct Answer: B. The audit timetable and critical reporting deadlines.

- **Explanation:** The Audit Strategy Memorandum includes the **audit timetable and critical reporting deadlines** as a core component.

5. Correct Answer: C. The audit engagement partner.

- **Explanation:** The Audit Strategy Memorandum must be reviewed and approved by the **audit engagement partner**.

6. Correct Answer: D. The chance that the auditor reaches an inappropriate conclusion on the area under audit.

- **Explanation:** **Audit risk** is the chance that the auditor reaches an inappropriate conclusion on the area under audit.

7. Correct Answer: C. Developing an overall strategy and a detailed audit plan.

- **Explanation:** **ISA 300** specifically regulates the audit planning process, requiring the auditor to develop an overall strategy and a detailed audit plan.

8. Correct Answer: D. To bridge the gap between business risks and technical issues.

- **Explanation:** The **COBIT Framework** is used to **bridge the gap between business risks and technical issues** in IT governance.

9. Correct Answer: D. Gather data on ESG impacts using professional skepticism.

- **Explanation:** One distinct step in the process for Sustainability Reporting is to **gather data on ESG impacts using professional skepticism**.

10. Correct Answer: D. Information whose omission or misstatement could influence the economic decisions of users.

- **Explanation:** **Materiality** is defined as information whose omission or misstatement could influence the economic decisions of users.

Audit Evidence

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

Bright Future Plc, a manufacturing company, has a significant amount of inventory held in various warehouses. As part of the audit, the auditor attends the company's annual physical inventory count to observe the client's counting procedures, ensure adherence to instructions, and perform test counts.

Which audit procedure is the auditor primarily performing by attending the physical inventory count and watching the client's staff?

- A. Inquiry
 - B. Inspection
 - C. Recalculation
 - D. Observation
-

Question 2

The audit of **Everest Corporation** for the year ended December 31, 2023, was completed, and the audit report was dated March 15, 2024. The final audit file was assembled on April 20, 2024.

According to relevant auditing standards, what is the minimum period for which the audit files for **Everest Corporation** must be retained?

- A. 7 years
 - B. 3 years
 - C. 5 years
 - D. 1 year
-

Question 3

During the audit of **Data Analytics Co.**, the auditor wants to understand the process by which new customer contracts are approved. The auditor interviews the sales manager, the legal counsel, and the finance director to gather information about the steps involved and the controls in place.

Which audit procedure is the auditor primarily using to gather this information?

- A. Observation
- B. Reperformance

- C. Inspection
 - D. Inquiry
-

Question 4

Efficient Workforce Solutions processes payroll for thousands of employees. To minimize errors and fraud, the company ensures that the individual responsible for calculating gross pay and deductions is different from the individual who authorizes the final payment run.

Which key control for the payroll cycle is being implemented by separating the duties of calculation and payment?

- A. Separation of calculation/payment duties.
 - B. Observation of cash distributions.
 - C. Authorisation of joiners/leavers.
 - D. Personnel record maintenance.
-

Question 5

An auditor is reviewing the general ledger entries for **QuickServe Solutions**. The auditor notices several large expense transactions recorded in January 2024, but the supporting invoices are dated December 2023. The auditor investigates to ensure these expenses are recorded in the correct accounting period.

Which financial statement assertion for transactions and events is the auditor primarily testing in this situation?

- A. Classification
 - B. Accuracy
 - C. Occurrence
 - D. Cutoff
-

Question 6

An auditor is reviewing the bank reconciliation prepared by **Financial Hub Ltd**. The auditor independently verifies the mathematical accuracy of the reconciliation by adding and subtracting the items to ensure the balance per bank statement reconciles to the balance per cash book.

Which audit procedure is the auditor performing in this scenario?

- A. Reperformance
- B. Inspection
- C. Inquiry

- **D. Recalculation**
-

Question 7

An auditor is testing the sales transactions of **Global Traders Inc.** The auditor selects a sample of entries from the sales journal and traces them back to the shipping documents and customer orders to ensure that the recorded sales represent goods actually shipped to legitimate customers.

Which financial statement assertion for transactions and events is the auditor primarily testing with this procedure?

- **A. Cutoff**
 - **B. Completeness**
 - **C. Occurrence**
 - **D. Accuracy**
-

Question 8

An auditor is examining the depreciation expense for **Modern Transport Ltd.** The auditor takes the non-current asset register, applies the company's stated depreciation rates and methods, and independently calculates the depreciation charge for the year to verify management's figures.

Which audit procedure is the auditor performing in this scenario?

- **A. Recalculation**
 - **B. Inquiry**
 - **C. Reperformance**
 - **D. Observation**
-

Question 9

Advanced Manufacturing Plc has a significant investment in machinery and equipment. To maintain proper control over these assets, the company ensures that all additions, disposals, and transfers of non-current assets are recorded in a detailed register, which is regularly updated and reconciled.

What key control for non-current assets is described by the maintenance of a detailed record of assets?

- **A. Authorised capital budgets.**
- **B. Non-current asset register.**
- **C. Physical verification of additions.**
- **D. Impairment reviews.**

Question 10

An auditor for **Precision Manufacturing Co.** is planning the audit of accounts receivable. The auditor determines that the maximum monetary error in the accounts receivable balance that can exist without causing the financial statements to be materially misstated is ₱500,000. This amount will guide the auditor in determining the sample size and evaluating the results of the audit procedures.

What specific term, as defined by relevant auditing standards, describes this maximum monetary error the auditor is prepared to accept?

- **A.** Materiality threshold
- **B.** Performance materiality
- **C.** Expected misstatement
- **D.** Tolerable misstatement

Answer Key and Explanations

1. Correct Answer: D. Observation

- **Explanation: Observation** involves watching a process or procedure being performed by others. Attending the physical inventory count to watch the client's staff is a direct application of observation.

2. Correct Answer: C. 5 years

- **Explanation:** Audit documentation standards require that final audit files must be retained for at least **5 years** from the date of the auditor's report.

3. Correct Answer: D. Inquiry

- **Explanation: Inquiry** involves seeking information from knowledgeable persons, both financial and non-financial. Interviewing managers to understand a process is a direct application of inquiry.

4. Correct Answer: A. Separation of calculation/payment duties.

- **Explanation: Separation of duties** is a fundamental internal control principle. Separating calculation duties from payment duties helps prevent errors and fraud.

5. Correct Answer: D. Cutoff

- **Explanation:** The **cutoff** assertion relates to whether transactions are recorded in the correct accounting period. Investigating expenses recorded in January with December invoices tests cutoff.

6. Correct Answer: D. Recalculation

- **Explanation: Recalculation** involves checking the mathematical accuracy of documents or records. Independently verifying the mathematical accuracy of a bank reconciliation is a direct application of recalculation.

7. Correct Answer: C. Occurrence

- **Explanation:** Tracing from the sales journal back to supporting documents verifies that recorded transactions actually took place, directly testing the **occurrence** assertion.

8. Correct Answer: A. Recalculation

- **Explanation: Recalculation** involves independently performing calculations to verify the client's figures, such as recalculating depreciation expense.

9. Correct Answer: B. Non-current asset register.

- **Explanation: A non-current asset register** is a key control that provides a detailed record of all fixed assets, including cost, depreciation, and location.

10. Correct Answer: D. Tolerable misstatement

- **Explanation: Tolerable misstatement** is the maximum monetary error in a population that the auditor is prepared to accept without concluding that the financial statements are materially misstated.

Evaluation and Review

Instructions: Please answer the following questions to the best of your ability. The correct answer, along with a detailed explanation, is provided at the end of this document.

Question 1

An auditor is explaining the classification of subsequent events to a new team member. They provide examples of events that offer further evidence of conditions existing at the reporting period end.

Which of the following is correct?

- **A. Contingent Events**
 - **B. Disclosing Events**
 - **C. Non-Adjusting Events**
 - **D. Adjusting Events**
-

Question 2

An auditor is performing an audit of **Chi Corporation**, which has been audited by the same firm for several years. The auditor is reviewing the opening balances for the current period.

Which of the following is correct?

- **A. Opening balances should be adjusted to reflect current market values.**
- **B. Opening balances must be re-audited every year.**

- **C.** Opening balances must agree with the prior year's audited figures.
 - **D.** Opening balances are not relevant if the current period's financial statements are accurate.
-

Question 3

The auditor of **Tau Corporation** has concluded that the going concern assumption is inappropriate for the entity. This conclusion is based on overwhelming evidence of severe financial distress and the inability of management to implement any viable mitigating actions.

Which of the following is correct?

- **A.** Issue a disclaimer of opinion.
 - **B.** Express an unmodified opinion with a Material Uncertainty Related to Going Concern section.
 - **C.** Express an adverse opinion.
 - **D.** Express a qualified opinion.
-

Question 4

The audit engagement letter for **Continuum Corp.** includes a section on the going concern assumption. The auditor is reviewing this fundamental concept.

Which of the following is correct?

- **A.** The entity's assets will be valued at their liquidation value.
 - **B.** The entity will be liquidated within the next five years.
 - **C.** The entity will continue operations for the foreseeable future.
 - **D.** The entity will cease operations within the next 12 months.
-

Question 5

The audit team for **Gamma Services Plc** is evaluating the entity's ability to continue as a going concern. They have noted that the company recently experienced the unexpected resignation of its entire senior management team, including the CEO and CFO. Additionally, a significant competitor has entered their primary market, leading to a noticeable decline in Gamma's market share.

Which of the following is correct?

- **A.** Compliance Indicators
- **B.** Operating Indicators
- **C.** Financial Indicators
- **D.** Other Indicators

Question 6

During the audit of **Astra Plc**, the auditor has accumulated misstatements totaling **₹7.8 million**. The established overall materiality for the financial statements is **₹8 million**. The audit partner is considering the implications of this situation.

Which of the following is correct?

- **A.** The auditor should increase the materiality threshold to avoid reassessing the audit plan.
- **B.** The auditor should only communicate the misstatements if management refuses to correct them.
- **C.** The auditor should issue an unmodified opinion, as the total is still below materiality.
- **D.** The auditor must reassess the audit strategy and plan.

Question 7

An auditor has identified a material misstatement in the financial statements of **Pi Corporation**. Management has agreed to correct the misstatement. However, the auditor also identified several other misstatements that are individually below the clearly trivial threshold but collectively could be significant. The auditor has accumulated all misstatements.

Which of the following is correct?

- **A.** Only communicate misstatements to management if they refuse to correct them.
- **B.** Communicate all misstatements to shareholders directly.
- **C.** Communicate all misstatements (excluding those clearly trivial) to management and request corrections.
- **D.** Communicate only the material misstatement that management agreed to correct to those charged with governance.

Question 8

In an initial audit engagement for **Zenith Innovations**, the auditor is reviewing the opening balances. A key procedure is to ensure that the figures from the prior period have been correctly carried forward.

Which of the following is correct?

- **A.** Assume that prior period balances are correct if they were previously audited.
- **B.** Verify that prior period closing balances have been correctly brought forward.
- **C.** Obtain a legal opinion on the accuracy of opening balances.
- **D.** Re-audit all transactions from the prior period.

Question 9

The audit team for **Omicron Enterprises** has identified several financial and operating indicators that raise significant doubt about the entity's ability to continue as a going concern. They are now developing their audit response to address these concerns.

Which of the following is correct?

- **A.** Perform a full re-audit of the prior year's financial statements.
 - **B.** Instruct management to liquidate assets to cover liabilities.
 - **C.** Immediately issue an adverse opinion.
 - **D.** Obtain a written representation from management confirming their opinion that the entity is a going concern.
-

Question 10

An auditor identifies an error in **Global Traders'** financial statements where a significant amount of sales revenue was incorrectly recognized prematurely, violating the revenue recognition criteria. This led to an overstatement of current period revenue and receivables.

Which of the following is correct?

- **A.** Classification of an item.
 - **B.** Disclosure of an item.
 - **C.** Amount of an item.
 - **D.** Presentation of an item.
-

Answer Key and Explanations**1. Correct Answer: D. Adjusting Events**

- **Explanation: Adjusting events** are subsequent events that provide evidence of conditions that existed at the end of the reporting period and require adjustment to the financial statements.

2. Correct Answer: C. Opening balances must agree with the prior year's audited figures.

- **Explanation:** Under **ISA 510**, the auditor must ensure that opening balances agree with the prior year's audited figures to ensure consistency and continuity.

3. Correct Answer: C. Express an adverse opinion.

- **Explanation:** If the going concern assumption is **inappropriate**, the auditor must express an **adverse opinion** as the financial statements are not fairly presented.

4. Correct Answer: C. The entity will continue operations for the foreseeable future.

- **Explanation:** The **going concern assumption** assumes the entity will continue operations for the foreseeable future, with no intention or need to liquidate.

5. Correct Answer: B. Operating Indicators

- **Explanation:** The loss of key management and a decline in major markets are **operating indicators** that suggest potential going concern risk.

6. Correct Answer: D. The auditor must reassess the audit strategy and plan.

- **Explanation:** If accumulated misstatements **approach materiality**, the auditor must **reassess the audit strategy and plan** to ensure effectiveness.

7. Correct Answer: C. Communicate all misstatements (excluding those clearly trivial) to management and request corrections.

- **Explanation:** The auditor must accumulate all misstatements found (excluding those **clearly trivial**) and communicate them to management, requesting corrections.

8. Correct Answer: B. Verify that prior period closing balances have been correctly brought forward.

- **Explanation:** A key procedure for opening balances is to **verify that prior period closing balances have been correctly brought forward**.

9. Correct Answer: D. Obtain a written representation from management confirming their opinion that the entity is a going concern.

- **Explanation:** A standard audit response to going concern risks is to obtain a **written representation** from management confirming their opinion on going concern.

10. Correct Answer: C. Amount of an item.

- **Explanation:** Premature revenue recognition directly affects the monetary value (**amount**) of sales revenue and receivables, leading to an overstatement.

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