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ICAN

Audit, Assurance and Forensics

Topic-by-Topic Quiz

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Finprep Academy



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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](https://www.finprepacademy.com)

Concept and Need for 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

The shareholders of **MegaCorp PLC** are concerned about the management of the company's vast assets. They expect the directors to manage these resources prudently and in the best interests of the company.

Which key audit concept best describes the role of the directors in looking after and managing the assets of **MegaCorp PLC** on behalf of the shareholders?

- A. Agency
 - B. Materiality
 - C. Stewardship
 - D. Independence
-

Question 2

The auditors of **Premier Services Ltd.** are preparing their audit report. They encountered some difficulties in obtaining all necessary information from management during the audit.

According to Schedule 5 of CAMA 2020, what specific statement must the auditors expressly include in their report regarding the information obtained?

- A. A statement on whether they obtained all necessary information and explanations.
 - B. A statement that the audit was conducted efficiently.
 - C. A statement detailing all instances of management's non-cooperation.
 - D. A statement confirming the company's profitability.
-

Question 3

An accounting firm is engaged to perform a review of the interim financial information of **Quarterly Reports Inc.**, which consists of historical financial data for a three-month period.

Which set of International Standards would primarily apply to this engagement?

- A. ISAEs (Assurance Engagements)
- B. ISREs (Review Engagements)
- C. ISAs (International Standards on Auditing)
- D. ISQMs (Quality Management)

Question 4

A financial institution requires a third-party opinion on the reliability of a prospective client's business plan before approving a large loan. The client provides the business plan, and an independent firm reviews it to enhance the bank's confidence.

What broad term describes this process where a firm provides an opinion on information prepared by another party to enhance the confidence of intended users?

- **A.** Consulting
 - **B.** Audit
 - **C.** Assurance
 - **D.** Attestation
-

Question 5

During the audit of **Reliable Logistics Ltd.**, the auditor is gathering evidence. For a significant transaction, the auditor obtains both internal documents (e.g., company invoices) and external confirmations (e.g., bank statements, supplier confirmations).

What two key qualities must the gathered information possess to be considered effective **evidence** in an assurance engagement?

- **A.** Conclusive and absolute
 - **B.** Internal and external
 - **C.** Timely and cost-effective
 - **D.** Sufficient and appropriate
-

Question 6

BlueSky Innovations Ltd. is a private company with share capital. For the recent financial year, its annual turnover was ₦125 million, and its net asset value was ₦55 million. All its shareholders are individuals, and none are foreign nationals or government entities. The directors own 55% of the company's equity.

Considering the criteria under CAMA 2020, does **BlueSky Innovations Ltd.** qualify as a small company for audit exemption purposes?

- **A.** No, its net asset value is too low.
- **B.** Yes, as long as it's a private company.
- **C.** No, its annual turnover exceeds the threshold.
- **D.** Yes, it meets most of the criteria.

Question 7

Bright Future Ltd. is a private company with share capital. Its annual turnover is ₦90 million, and net asset value is ₦45 million. All members are Nigerian individuals, and no government agency is involved. However, the directors collectively own 45% of the equity share capital, with the remaining 55% held by other individual shareholders.

Does **Bright Future Ltd.** qualify for the small company audit exemption under CAMA 2020?

- **A.** No, because it has too many individual shareholders.
 - **B.** Yes, it meets the turnover and net asset value criteria.
 - **C.** Yes, because it is a private company.
 - **D.** No, the directors do not hold at least 51% of the equity share capital.
-

Question 8

An auditor is reviewing the financial statements of **Global Connect PLC**. To form an opinion, the auditor compares the company's accounting practices and disclosures against the International Financial Reporting Standards (IFRS).

In this context, what do the IFRS represent as an **element of an assurance engagement**?

- **A.** The Subject Matter
 - **B.** The Assurance Report
 - **C.** The Evidence
 - **D.** The Suitable Criteria
-

Question 9

Public-Private Synergy Ltd. is a private company with share capital, an annual turnover of ₦70 million, and a net asset value of ₦40 million. All its directors hold 51% of the equity, and all individual members are Nigerian. However, a state government agency holds a 10% minority stake in the company.

Does **Public-Private Synergy Ltd.** qualify for the small company audit exemption under CAMA 2020?

- **A.** No, because a government corporation or agency is one of its members.
 - **B.** Yes, it meets the financial thresholds and director ownership.
 - **C.** Yes, because it is a private company.
 - **D.** No, because its turnover is too low.
-

Question 10

The shareholders of **Enterprise Holdings PLC** have appointed a board of directors to manage the company's operations and make strategic decisions. The shareholders expect the directors to act in their best financial interests.

Which legal principle describes the relationship where the directors act on behalf of the shareholders and are accountable to them?

- **A. Materiality**
- **B. Independence**
- **C. Stewardship**
- **D. Agency**

Answer Key and Explanations**1. Correct Answer: C. Stewardship**

- **Explanation: Stewardship** is the key audit concept that describes the role of directors in looking after and managing the assets of the company on behalf of the shareholders.

2. Correct Answer: A. A statement on whether they obtained all necessary information and explanations.

- **Explanation:** Schedule 5 of CAMA 2020 requires auditors to expressly include a **statement on whether they obtained all necessary information and explanations**.

3. Correct Answer: B. ISREs (Review Engagements)

- **Explanation: ISREs (International Standards on Review Engagements)** apply to engagements to review historical financial information, such as interim financial reports.

4. Correct Answer: C. Assurance

- **Explanation: Assurance** is a broad term describing a firm providing an opinion on information prepared by another party to enhance the confidence of intended users.

5. Correct Answer: D. Sufficient and appropriate

- **Explanation:** For information to be considered effective evidence in an assurance engagement, it must possess the qualities of being **sufficient and appropriate**.

6. Correct Answer: C. No, its annual turnover exceeds the threshold.

- **Explanation:** Under CAMA 2020, for small company audit exemption, the turnover threshold is ₦120 million. BlueSky's turnover of ₦125 million **exceeds this threshold**.

7. Correct Answer: D. No, the directors do not hold at least 51% of the equity share capital.

- **Explanation:** For audit exemption under CAMA 2020, the directors must hold at least **51% of the equity share capital**. Bright Future's directors hold only 45%, so they do not qualify.

8. Correct Answer: D. The Suitable Criteria

- **Explanation:** In an assurance engagement, IFRS represents the **Suitable Criteria** against which the subject matter (the financial statements) is evaluated.

9. Correct Answer: A. No, because a government corporation or agency is one of its members.

- **Explanation:** For audit exemption under CAMA 2020, no government corporation or agency can be a member. The state government agency's 10% stake disqualifies the company.

10. Correct Answer: D. Agency

- **Explanation:** The legal principle of **Agency** describes the relationship where directors (agents) act on behalf of the shareholders (principals) and are accountable to them.

Substantive procedures: Non-current assets

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

Precision Engineering Ltd. acquired a specialized machine for its production line. The auditor is performing substantive procedures to test the **Valuation** assertion for this asset, which is held at cost.

Which procedure is most relevant for verifying the recorded cost of this machine?

- **A.** Physically inspecting the machine to assess its condition.
 - **B.** Examining vehicle registration documents.
 - **C.** Confirming the figures against purchase contracts and invoices.
 - **D.** Reviewing the depreciation rates for reasonableness.
-

Question 2

During the audit of **Property Holdings Plc.**, the auditor is testing the **Rights and Obligations** assertion for a newly acquired office building. The company has presented the building as a noncurrent asset in its financial statements.

Which audit procedure would provide the most direct evidence regarding the entity's legal ownership of the office building?

- **A.** Examining the title deeds and legal documents of ownership for the property.
- **B.** Physically inspecting the office building to confirm its existence and condition.
- **C.** Recalculating the depreciation charge based on the building's useful life.

- **D.** Reviewing the independent valuer's report for the building's fair value.
-

Question 3

An auditor for **Logistics Hub Ltd.** is performing substantive procedures on the company's fleet of delivery vehicles. The auditor wants to confirm that the recorded assets actually exist.

Which of the following procedures would be most effective for testing the **Existence** assertion for these vehicles?

- **A.** Recalculating the depreciation charge for a sample of vehicles.
 - **B.** Obtaining a schedule of vehicle additions and verifying purchase invoices.
 - **C.** Reviewing vehicle registration documents to confirm legal ownership.
 - **D.** Selecting a sample of vehicles from the noncurrent asset register and physically inspecting them.
-

Question 4

Growth Industries Ltd. made several significant additions to its plant and machinery during the year. The auditor is reviewing the schedule of additions.

What is a primary audit procedure for verifying these additions?

- **A.** Recalculating the depreciation charge for the new assets.
 - **B.** Obtaining a schedule of additions and verifying that the expenditure was properly authorized.
 - **C.** Physically inspecting the new assets to confirm their existence.
 - **D.** Reviewing bank statements for evidence of disposal proceeds.
-

Question 5

Asset Management Co. presents its noncurrent assets in its financial statements. The auditor needs to confirm the calculation of the net carrying amount for a specific asset.

How is the **Net Carrying Amount** of a noncurrent asset calculated?

- **A.** Cost or Valuation - Accumulated Depreciation and Impairment losses
 - **B.** Cost or Valuation + Accumulated Depreciation and Impairment losses
 - **C.** Disposal Proceeds - Original Cost
 - **D.** Original Cost - Residual Value
-

Question 6

Synergy Acquisitions Plc. recognized a substantial amount of goodwill from a recent business combination. The auditor is performing substantive procedures related to this intangible asset.

Beyond confirming that only purchased goodwill is recognized, what is another critical procedure the auditor must perform concerning goodwill?

- **A.** Discussing the project's technical feasibility with management.
 - **B.** Reviewing the assets for impairment and ensuring impairment losses are correctly recorded.
 - **C.** Confirming the consideration paid for the acquired business.
 - **D.** Reviewing the fair value placed on the net assets acquired.
-

Question 7

Mega Projects Inc. is constructing a new manufacturing plant using its own internal resources. The auditor is reviewing the costs capitalized for this self-constructed asset.

Which of the following would be a key piece of evidence an auditor would inspect to verify the capitalized costs for internal labor?

- **A.** Evidence of capitalized overheads, such as utility bills.
 - **B.** Purchase invoices for raw materials used in construction.
 - **C.** Bank statements showing payments to external contractors.
 - **D.** Time records for internal labor directly involved in the construction.
-

Question 8

Swift Deliveries Ltd. sold one of its delivery vans. The auditor needs to verify the reported gain or loss on disposal.

Which formula is correctly used to calculate the gain or loss on disposal of a noncurrent asset?

- **A.** Gain/Loss = Disposal Proceeds - Original Cost
 - **B.** Gain/Loss = Disposal Proceeds - Carrying Amount at the date of disposal
 - **C.** Gain/Loss = Original Cost - Accumulated Depreciation
 - **D.** Gain/Loss = Disposal Proceeds + Carrying Amount at the date of disposal
-

Question 9

Machinery Works Plc. uses various depreciation rates for its different categories of plant and machinery. The auditor is reviewing the appropriateness of these rates.

What factors should the auditor primarily consider when reviewing depreciation rates for reasonableness?

- **A.** The historical cost of the asset and the current market value.
 - **B.** The asset's useful life and residual value.
 - **C.** The depreciation rates used by competitors in the same industry.
 - **D.** The company's profitability and cash flow projections.
-

Question 10

Asset Recycling Co. disposed of several old machines during the financial year. The auditor is reviewing the accounting treatment of these disposals.

What is a critical check the auditor performs regarding the accounting for disposals?

- **A.** Recalculating the gain or loss on disposal.
 - **B.** Verifying that both the cost and accumulated depreciation have been removed from the ledger.
 - **C.** Agreeing the disposal proceeds to the bank statement.
 - **D.** Questioning management about potential unrecorded disposals.
-

Answer Key and Explanations

1. Correct Answer: C. Confirming the figures against purchase contracts and invoices.

- **Explanation:** For assets held at cost, the auditor confirms figures against **purchase contracts and invoices**, including associated professional fees. This directly verifies the initial recorded value of the asset.

2. Correct Answer: A. Examining the title deeds and legal documents of ownership for the property.

- **Explanation:** For land and buildings, the auditor verifies legal title by inspecting **title deeds, legal documents of ownership**, or lease agreements, providing direct evidence of rights and obligations.

3. Correct Answer: D. Selecting a sample of vehicles from the noncurrent asset register and physically inspecting them.

- **Explanation:** To ensure recorded assets exist, the auditor must select a sample of assets from the **noncurrent asset register and physically inspect them** for the existence assertion.

4. Correct Answer: B. Obtaining a schedule of additions and verifying that the expenditure was properly authorized.

- **Explanation:** For asset additions, a primary audit procedure is to obtain a schedule of additions and verify that the expenditure was **properly authorized**.

5. Correct Answer: A. Cost or Valuation - Accumulated Depreciation and Impairment losses

- **Explanation:** The Net Carrying Amount (Net Book Value) is calculated by subtracting **Accumulated Depreciation and Impairment losses** from Cost or Valuation.

6. Correct Answer: B. Reviewing the assets for impairment and ensuring impairment losses are correctly recorded.

- **Explanation:** For goodwill, a critical procedure is to **review the assets for impairment** and ensure impairment losses are correctly recorded, as goodwill is subject to annual impairment testing.

7. Correct Answer: D. Time records for internal labor directly involved in the construction.

- **Explanation:** For self-constructed assets, the auditor inspects purchase invoices for raw materials, **time records for internal labor**, and evidence for any capitalized overheads.

8. Correct Answer: B. Gain/Loss = Disposal Proceeds - Carrying Amount at the date of disposal

- **Explanation:** Gain or loss on disposal is calculated by comparing the **proceeds received** with the asset's **carrying amount** at the date of disposal.

9. Correct Answer: B. The asset's useful life and residual value.

- **Explanation:** The auditor reviews depreciation rates for reasonableness based on the asset's **useful life and residual value**, which are fundamental inputs into depreciation calculations.

10. Correct Answer: B. Verifying that both the cost and accumulated depreciation have been removed from the ledger.

- **Explanation:** A critical check for disposals is verifying that **both the cost and accumulated depreciation have been removed from the ledger** to avoid overstatement.

Substantive procedures: current assets

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 assessing the risks associated with trade receivables for **Chi Retailers**. The auditor is concerned about the possibility of customers not paying their debts and whether all recorded receivables actually exist.

What are the two principal risks for trade receivables that the auditor is primarily concerned with in this scenario?

- **A. Completeness and Presentation/Disclosure.**
 - **B. Rights and Obligations and Accuracy.**
 - **C. Valuation (irrecoverable debts) and Existence.**
 - **D. Classification and Cutoff.**
-

Question 2

Eta Manufacturing Plc. is preparing its financial statements. The company holds various types of inventory, some of which have seen a decline in market value below their original cost.

According to IAS 2, how should inventory be valued in the financial statements under these circumstances?

- **A.** At net realizable value, regardless of cost.
 - **B.** At cost, regardless of market value.
 - **C.** At the higher of cost and net realizable value.
 - **D.** At the lower of cost and net realizable value on an item-by-item basis.
-

Question 3

Lambda Enterprises maintains a significant petty cash fund and also has cash collections at multiple retail branches. The auditor plans to perform a physical count of these cash balances.

Which of the following procedures is essential when performing a physical cash count for material balances?

- **A.** Relying solely on bank statements for cash verification.
 - **B.** Counting cash only in the absence of a company official to ensure independence.
 - **C.** Counting cash at each location on different days to avoid disruption.
 - **D.** Counting cash at all locations simultaneously in the presence of a company official.
-

Question 4

The auditor of **Kappa Holdings Plc.** is preparing a standard bank confirmation letter to be sent to all banks the entity deals with. The client has authorized this request.

Which of the following information should the auditor expect to be covered in the bank's reply sent directly to the auditor?

- **A.** A list of all employees' salaries and benefits.
 - **B.** Account balances, unpaid charges, and any liens over assets.
 - **C.** The client's projected cash flow for the next five years.
 - **D.** Details of the client's future investment plans.
-

Question 5

Theta Services Ltd. has a very large number of customers, each with relatively small outstanding balances. The internal controls over sales and receivables are assessed as strong, and the auditor expects a very low rate of exceptions. The auditor is considering using negative confirmations for trade receivables.

Under ISA 505, which of the following conditions **MUST** be present for the use of negative confirmations to be appropriate?

- **A.** The balances are individually material and represent a significant portion of total receivables.
 - **B.** The auditor has no alternative procedures available for non-responses.
 - **C.** The risk of material misstatement is assessed as low, and many small balances are involved.
 - **D.** The auditor requires a direct response from all customers, whether they agree or disagree.
-

Question 6

An auditor is examining the prepayments balance of **Tau Consulting Ltd.** at year-end. The balance primarily consists of prepaid rent and insurance.

Which of the following is a standard substantive procedure for auditing prepayments?

- **A.** Performing a physical count of the prepaid assets.
 - **B.** Reviewing post-year-end sales prices of inventory.
 - **C.** Sending direct confirmations to the company's customers.
 - **D.** Obtaining a list of prepayments with supporting calculations and checking against invoices.
-

Question 7

During the audit of **Zeta Corporation**, the auditor is reviewing the bank reconciliation statement. The reconciliation includes a significant number of unrepresented cheques.

What is the most appropriate substantive procedure for verifying these unrepresented cheques?

- **A.** Discussing the nature of the cheques with the client's bank manager.
 - **B.** Tracing the cheques to the cash book and then to subsequent bank statements.
 - **C.** Confirming the cheques directly with the payees.
 - **D.** Inspecting the physical cheques for authenticity.
-

Question 8

An auditor is reviewing the bank and cash balances of **Alpha Bank Plc.** The auditor is particularly concerned that some bank accounts might not be disclosed in the financial statements and that differences in bank reconciliations are not being handled correctly.

What are the main risks associated with bank and cash balances that the auditor is focusing on in this scenario?

- **A.** Valuation (reconciliation differences) and Existence/Rights (undisclosed accounts).

- **B. Completeness and Presentation/Disclosure.**
 - **C. Cutoff and Occurrence.**
 - **D. Accuracy and Classification.**
-

Question 9

An auditor is selecting a sample of trade receivables for direct confirmation at **Epsilon Wholesalers**. The auditor wants to ensure a comprehensive test of the population.

Which of the following criteria should the auditor consider when selecting the sample for direct confirmation?

- **A. Accounts that are individually material, overdue, and those with credit balances.**
 - **B. Exclusively accounts with round-sum payments to simplify reconciliation.**
 - **C. Only accounts with zero balances to confirm non-existence.**
 - **D. Only accounts with balances less than the materiality threshold.**
-

Question 10

An auditor is reviewing the inventory of **Mu Electronics Plc.**, which includes several high-tech components. Due to rapid technological changes, there's a risk that some components might be obsolete or slow-moving.

Which substantive procedure would be most effective for assessing the net realizable value (NRV) of these components?

- **A. Verifying raw material costs against purchase invoices.**
 - **B. Reviewing post-year-end sales prices, examining slow-moving inventory records, and discussing obsolescence with management.**
 - **C. Performing test counts during the physical inventory count.**
 - **D. Reviewing cost schedules and time records for labor.**
-

Answer Key and Explanations

1. Correct Answer: **C. Valuation (irrecoverable debts) and Existence.**

- **Explanation:** The principal risks for receivables are **valuation (irrecoverable debts)** and **existence**.

2. Correct Answer: **D. At the lower of cost and net realizable value on an item-by-item basis.**

- **Explanation:** Per IAS 2, inventory must be valued at the **lower of cost and net realizable value (NRV)** on an item-by-item basis.

3. Correct Answer: **D. Counting cash at all locations simultaneously in the presence of a company official.**

- **Explanation:** For material cash balances, the auditor should **count cash at all locations simultaneously** in the presence of a company official.

4. Correct Answer: B. Account balances, unpaid charges, and any liens over assets.

- **Explanation:** The bank confirmation reply should cover **account balances, unpaid charges, liens (charges) over assets**, and security for lending.

5. Correct Answer: C. The risk of material misstatement is assessed as low, and many small balances are involved.

- **Explanation:** Negative confirmation is only permitted if the **risk of misstatement is low, many small balances are involved**, and a low exception rate is expected.

6. Correct Answer: D. Obtaining a list of prepayments with supporting calculations and checking against invoices.

- **Explanation:** The auditor obtains or prepares a list of prepayments with supporting calculations and **checks these calculations against supporting documentation like invoices**.

7. Correct Answer: B. Tracing the cheques to the cash book and then to subsequent bank statements.

- **Explanation:** The auditor verifies unpresented cheques against **subsequent bank statements** to ensure they clear in the next period, confirming their validity and proper cutoff.

8. Correct Answer: A. Valuation (reconciliation differences) and Existence/Rights (undisclosed accounts).

- **Explanation:** The main risks for bank and cash balances are that bank balances are not disclosed (**Existence/Rights**) and that reconciliation differences are incorrectly handled (**Valuation**).

9. Correct Answer: A. Accounts that are individually material, overdue, and those with credit balances.

- **Explanation:** Sample selection criteria for trade receivables should include **overdue accounts, credit (negative) balances, nil balances, round-sum payments, and individually material items**.

10. Correct Answer: B. Reviewing post-year-end sales prices, examining slow-moving inventory records, and discussing obsolescence with management.

- **Explanation:** To assess net realizable value, auditors **review post-year-end sales prices**, examine slow-moving inventory records, and **discuss obsolescence with management**.

Substantive procedures: other areas

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

Financial Hub Ltd. had an average outstanding loan balance of ₦10,000,000 throughout the year. The average interest rate for the period was 8.5%. The auditor wants to perform a proof in total calculation for interest paid.

Using the proof in total formula, what is the expected interest paid for the year?

- A. ₦1,176,471
 - B. ₦850,000
 - C. ₦1,000,000
 - D. ₦85,000
-

Question 2

During the audit of **Alpha Innovations Plc**, the auditor is reviewing the share capital section. The company recently issued new shares. The auditor needs to ensure that the issued capital is correctly recorded and authorized.

Which document or record would the auditor primarily agree the issued capital to?

- A. The Register of Directors.
 - B. The Register of Members.
 - C. The company's bank statements.
 - D. The company's articles of association.
-

Question 3

New Horizon Ltd. issued new shares during the year. The auditor is verifying the share capital movements.

What specific detail about the new share issues should the auditor verify?

- A. The market price of the shares on the issue date.
 - B. The nominal value of the new issues.
 - C. The dividend yield of the new shares.
 - D. The total number of shares held by the largest shareholder.
-

Question 4

The auditor of **Corporate Holdings Plc** is reviewing the company's share capital structure. The auditor needs to confirm the authorized capital.

Which document would the auditor check to verify the authorized capital of the company?

- **A.** The Register of Members.
 - **B.** The company's bank statements.
 - **C.** The company's latest annual report.
 - **D.** The company's constitution.
-

Question 5

Long-Term Investments Ltd. has several non-current loans from different financial institutions. The auditor needs to obtain independent evidence of the outstanding balances of these loans at year-end.

What specific procedure should the auditor perform to obtain independent evidence of the outstanding amounts of non-current loans?

- **A.** Obtain direct confirmation from lenders for outstanding amounts.
 - **B.** Agree loan details to original agreements.
 - **C.** Recalculate interest charges based on loan agreements.
 - **D.** Vouch repayments to bank statements.
-

Question 6

Future Growth Bank provided a loan of ₦20,000,000 to **Tech Solutions Plc** with a covenant requiring a debt-to-equity ratio not exceeding 1.5:1. At year-end, **Tech Solutions Plc** reports total debt of ₦30,000,000 and total equity of ₦18,000,000.

Is **Tech Solutions Plc** in breach of its loan covenant, and what is the calculated debt-to-equity ratio?

- **A.** No, the ratio is 1.2:1.
 - **B.** Yes, the ratio is 0.6:1.
 - **C.** Yes, the ratio is 1.67:1.
 - **D.** No, the ratio is 1.5:1.
-

Question 7

An auditor is performing substantive procedures on the financial statements of **Reliable Services Ltd.** The audit manager explains that liabilities are subject to directional testing for understatement.

Why are liabilities typically subject to directional testing for understatement?

- **A.** Because entities are more likely to omit liabilities to present a stronger financial position.
- **B.** Because liabilities are inherently easier to audit than assets.
- **C.** To confirm the existence of recorded liabilities.

- **D.** To ensure liabilities are recorded at their correct valuation.
-

Question 8

The audit team for **Small Scale Enterprises Ltd.** is discussing the audit of directors' emoluments. One junior auditor suggests that since the company is small and the directors' salaries are not individually large, they might not be material.

According to the legal framework, how should directors' emoluments be treated in terms of materiality?

- **A.** They are material by nature regardless of their size.
 - **B.** They are generally not material for small companies.
 - **C.** They are material only if they significantly impact the company's profitability.
 - **D.** They are material only if they exceed a certain percentage of total expenses.
-

Question 9

Staffing Solutions Ltd. reported total payroll costs of ₦12,000,000 for the year ended 31 December 2023. The accrued payroll expenses at year-end were ₦800,000. In the prior year, total payroll costs were ₦10,500,000 and accrued payroll expenses were ₦750,000. The auditor wants to calculate the ratio of accrued payroll expenses to total payroll costs for both years to detect omissions.

What are the ratios of accrued payroll expenses to total payroll costs for the current year and prior year, respectively, rounded to two decimal places?

- **A.** Current Year: 6.67%, Prior Year: 7.14%
 - **B.** Current Year: 6.00%, Prior Year: 7.00%
 - **C.** Current Year: 7.14%, Prior Year: 6.67%
 - **D.** Current Year: 8.00%, Prior Year: 7.50%
-

Question 10

The auditor is performing procedures on directors' emoluments for **Executive Solutions Plc.** The company has provided a schedule of emoluments for each director.

What is a key procedure the auditor should perform to verify the figures in the schedule of emoluments?

- **A.** Obtain verbal confirmation from each director.
- **B.** Compare the figures to industry benchmarks for director salaries.
- **C.** Agree the figures to the company's sales invoices.
- **D.** Agree the figures to payroll records and bank statements.

Answer Key and Explanations

1. Correct Answer: B. ₦850,000

- **Explanation:** The proof in total formula for interest paid is: Average Interest Rate × Average Balance Outstanding. $0.085 \times ₦10,000,000 = \text{₦850,000}$.

2. Correct Answer: B. The Register of Members.

- **Explanation:** The auditor agrees the issued capital to the **Register of Members** to confirm the number of shares issued and the holders of those shares.

3. Correct Answer: B. The nominal value of the new issues.

- **Explanation:** When new shares are issued, the auditor verifies the **nominal value** of these new issues to ensure that share capital is recorded at its correct par value.

4. Correct Answer: D. The company's constitution.

- **Explanation:** The auditor checks that authorized capital matches the company's **constitution** (e.g., Memorandum and Articles of Association), which legally defines the maximum share capital permitted.

5. Correct Answer: A. Obtain direct confirmation from lenders for outstanding amounts.

- **Explanation:** Obtaining **direct confirmation from lenders** for outstanding amounts provides independent, external evidence of the loan balance, which is highly reliable.

6. Correct Answer: C. Yes, the ratio is 1.67:1.

- **Explanation:** Debt-to-equity ratio = $₦30,000,000 / ₦18,000,000 = 1.67:1$. The covenant requires a ratio not exceeding 1.5:1, so the company is **in breach**.

7. Correct Answer: A. Because entities are more likely to omit liabilities to present a stronger financial position.

- **Explanation:** Liabilities are subject to directional testing for understatement because management has an incentive to present a stronger financial position by **omitting or understating obligations**.

8. Correct Answer: A. They are material by nature regardless of their size.

- **Explanation:** Directors' emoluments are considered **material by nature** regardless of their size due to the related party nature of these transactions.

9. Correct Answer: A. Current Year: 6.67%, Prior Year: 7.14%

- **Explanation:** Current Year = $(₦800,000 / ₦12,000,000) = 6.67\%$. Prior Year = $(₦750,000 / ₦10,500,000) = 7.14\%$.

10. Correct Answer: D. Agree the figures to payroll records and bank statements.

- **Explanation:** To verify the figures in the schedule of emoluments, the auditor should **agree them to payroll records and bank statements**, which provide supporting documentation for payments made.

Objectives, need for and process 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

Trustworthy Auditors has completed the audit of **Family Foods Plc** and is preparing to issue an unmodified auditor's report. The report will confirm that the financial statements present a true and fair view.

According to ISA 700, what specific word must be included in the title of this auditor's report?

- A. Independent.
 - B. Certified.
 - C. Statutory.
 - D. Unqualified.
-

Question 2

The newly formed audit committee of **Public Services Plc**, a public company, is discussing its operational guidelines. One of the members raises a question about potential remuneration for their service on the committee.

According to CAMA 2020, what is the entitlement of audit committee members regarding remuneration?

- A. They are entitled to remuneration as determined by the shareholders at the AGM.
 - B. They are not entitled to remuneration.
 - C. They are entitled to remuneration based on attendance at meetings.
 - D. They are entitled to a fixed annual remuneration approved by the board.
-

Question 3

Integrity Audit Firm has completed all necessary audit procedures for **Prime Industries Ltd.** . They obtained sufficient appropriate audit evidence on April 10, 2024. The financial statements were approved by management on April 12, 2024.

According to ISA 700, what is the earliest date the auditor's report for **Prime Industries Ltd.** can be dated?

- A. December 31, 2023 (year-end date).
- B. April 12, 2024.
- C. April 10, 2024.
- D. April 15, 2024.

Question 4

The audit team at **Reliable Audits** is preparing the written representation letter for **Local Traders Ltd.** . They need to ensure the letter adheres to the standard format requirements.

According to ISA 580, who typically drafts the written representation letter?

- **A.** The client's legal counsel.
 - **B.** The client's management.
 - **C.** The auditor.
 - **D.** The audit committee.
-

Question 5

National Industries Plc, a public company, is in the process of constituting its audit committee as mandated by CAMA 2020. The board is discussing the composition of this committee.

According to CAMA 2020, what is the maximum number of members allowed on the audit committee of a public company?

- **A.** Seven members.
 - **B.** Five members.
 - **C.** Three members.
 - **D.** Ten members.
-

Question 6

Auditor & Co. is finalizing the audit of **Greenleaf Ltd.** . As part of their procedures, they request a written representation letter from management. This letter confirms various aspects of the financial statements and management's responsibilities.

According to ISA 580, what is the primary role of written representations in an audit?

- **A.** To guarantee the absolute correctness of the financial statements.
 - **B.** To serve as the sole source of sufficient appropriate audit evidence.
 - **C.** To confirm certain matters and support other audit evidence.
 - **D.** To replace other substantive audit procedures.
-

Question 7

A public lecture on corporate governance highlighted that there is often a misunderstanding between what the public expects auditors to do and what auditors are actually responsible for under their professional standards.

This difference in perception is commonly referred to as what in the auditing profession?

- **A.** The Expectation Gap.
 - **B.** The Assurance Deficit.
 - **C.** The Credibility Chasm.
 - **D.** The Responsibility Divide.
-

Question 8

Professional Auditors has completed the audit of **Family Holdings Ltd.** and is preparing the unmodified auditor's report. They need to correctly identify the party to whom the report should be addressed.

According to ISA 700, who is the auditor's report usually addressed to?

- **A.** The general public.
 - **B.** The company's creditors.
 - **C.** The shareholders or board of directors.
 - **D.** The regulatory authorities.
-

Question 9

During the audit of **Tech Innovations Ltd.**, the audit team identifies several misstatements, including an incorrect revenue recognition entry and an understated provision for warranty claims. These misstatements, individually and in aggregate, are deemed material.

According to ISA 450, what is the auditor's immediate procedural requirement after accumulating these misstatements?

- **A.** Communicate all misstatements to management and request correction.
 - **B.** Communicate the misstatements directly to those charged with governance.
 - **C.** Reassess materiality to ensure it remains appropriate.
 - **D.** Adjust the financial statements unilaterally to correct the errors.
-

Question 10

The audit committee of **Corporate Solutions Plc**, a public company, has served for one year. The company's board is now considering the process for continuing the committee's operations.

According to CAMA 2020, what is the requirement regarding the reelection of audit committee members?

- **A.** Members are appointed for life unless they resign.
- **B.** Members serve for a fixed term of three years without reelection.
- **C.** Members are reelected only if there are performance issues.
- **D.** Members are subject to annual reelection.

Answer Key and Explanations

1. Correct Answer: A. Independent.

- **Explanation:** The title of an auditor's report, when expressing an unmodified opinion, must explicitly include the word '**Independent**' to signify the auditor's objectivity and impartiality.

2. Correct Answer: B. They are not entitled to remuneration.

- **Explanation:** Under CAMA 2020, members serving on the audit committee of public companies are explicitly stated as **not being entitled to receive remuneration** for their service.

3. Correct Answer: C. April 10, 2024.

- **Explanation:** The date of the auditor's report cannot precede the date on which the auditor has obtained **all necessary and appropriate audit evidence**. That date is April 10, 2024.

4. Correct Answer: C. The auditor.

- **Explanation:** While the written representation letter is addressed to the auditor and signed by management, it is **typically drafted by the auditor** to ensure it covers all necessary points.

5. Correct Answer: B. Five members.

- **Explanation:** CAMA 2020 specifies that a public company's audit committee must consist of a maximum of **five members**, comprising both directors and representatives of the shareholders.

6. Correct Answer: C. To confirm certain matters and support other audit evidence.

- **Explanation:** Written statements from management are used to **confirm specific matters or to corroborate other evidence** gathered during an audit. They are not sufficient on their own.

7. Correct Answer: A. The Expectation Gap.

- **Explanation:** The discrepancy between what the public believes an auditor's role is, and what those responsibilities actually entail, is known as the **expectation gap**.

8. Correct Answer: C. The shareholders or board of directors.

- **Explanation:** The auditor's report is typically addressed to the **shareholders or the board of directors**, as these are the primary stakeholders for whom the audit is conducted.

9. Correct Answer: A. Communicate all misstatements to management and request correction.

- **Explanation:** After identifying and accumulating misstatements, the auditor's immediate step is to **inform management about these misstatements and ask them to make the necessary corrections.**

10. Correct Answer: D. Members are subject to annual reelection.

- **Explanation:** Under CAMA 2020, members of the audit committee in public companies are required to undergo **annual reelection.** This ensures regular accountability.

Business systems and associated information technology risks

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

During a routine data entry process at **Accurate Data Solutions**, an employee mistakenly entered a customer's account number incorrectly, leading to a payment being posted to the wrong account. This error required manual intervention to correct and caused temporary inconvenience for the customer.

Which common IT risk is exemplified by this incident?

- **A.** Hardware/software failures
 - **B.** Human error
 - **C.** Malware
 - **D.** Denial-of-Service (DoS) attacks
-

Question 2

During a routine security review at **DataGuard Services**, it was discovered that an employee, Mr. Emeka, had been secretly accessing sensitive client data beyond his authorized permissions. He used his legitimate network credentials but exploited a loophole in the access control system to view information unrelated to his job function.

Which specific IT risk does Mr. Emeka's action primarily represent?

- **A.** Insider fraud
- **B.** Malware
- **C.** Denial-of-Service (DoS) attacks
- **D.** Natural disasters

Question 3

During an internal audit at **Global Logistics Inc.**, it was discovered that a junior accountant accidentally deleted a critical financial report from the shared drive, mistaking it for a temporary file. Although the file was eventually recovered from a backup, the incident caused a significant delay in month-end closing procedures and required considerable effort from the IT department.

Which specific IT risk does this incident primarily illustrate?

- A. Denial-of-Service (DoS) attacks
 - B. Malware
 - C. Human error
 - D. Hackers
-

Question 4

SecureNet Systems, an IT consulting firm, advises its clients on fundamental cybersecurity practices. One of their most basic recommendations for protecting against common digital threats is to ensure that all operating systems and application software are regularly updated.

Which practical protection method is **SecureNet Systems** emphasizing with this recommendation?

- A. Staff training
 - B. Regular software updates
 - C. Physical access controls
 - D. Offsite data backups
-

Question 5

DataVault Solutions, a data management company, emphasizes the importance of data recovery in its disaster preparedness strategy. To ensure business continuity even in the event of a catastrophic site failure, they regularly copy all critical client data to a geographically separate and secure location.

Which practical protection method is **DataVault Solutions** primarily implementing with this strategy?

- A. Password policies
 - B. Offsite data backups
 - C. Antivirus/firewalls
 - D. Physical access controls
-

Question 6

An employee at **SecureData Solutions**, Mr. Obi, frequently uses the same simple password for both his work accounts and personal social media profiles. Despite repeated warnings from the IT department about strong password policies, he finds it inconvenient to remember complex, unique passwords. Recently, one of his personal social media accounts was compromised, and there are concerns that his work accounts could also be at risk.

Which specific IT risk is most directly highlighted by Mr. Obi's actions and the potential consequences?

- **A.** Spam/phishing
 - **B.** Denial-of-Service (DoS) attacks
 - **C.** Password theft
 - **D.** Hardware/software failures
-

Question 7

After completing a comprehensive IT audit for **FinServe Bank**, the audit team is preparing to present their findings to the bank's executive management and board of directors. They understand that these stakeholders require a concise overview of the most critical issues, implications, and recommendations without delving into excessive technical detail.

Which section of a typical IT Audit Report is specifically designed to provide a brief, high-level overview of the audit's key findings and conclusions, usually kept under five pages?

- **A.** Cover page
 - **B.** Appendices
 - **C.** Executive summary
 - **D.** Terms of reference
-

Question 8

Zion Bank Plc. employs a specialized audit function that continuously monitors transactions as they occur within its core banking system. This real-time examination allows the bank to identify unusual patterns or potential fraudulent activities almost immediately, providing early warning signals to management.

Which specific type of audit, as described in the context of advanced analytics and AI, is **Zion Bank Plc.** conducting?

- **A.** Concurrent Audit
- **B.** Post-transaction audit
- **C.** External audit
- **D.** Forensic audit

Question 9

GlobalTech Innovations operates a critical data centre that houses all its servers and network infrastructure. To ensure the continuous operation and security of its services, the company regularly conducts audits of this facility. One key area of focus during these audits is to assess how the physical environment is managed, including temperature, humidity, and fire suppression systems.

Which key area of a Data Centre Audit does this focus primarily fall under?

- **A.** Environmental monitoring
 - **B.** IT service delivery
 - **C.** Human capacity
 - **D.** Administration
-

Question 10

CyberSecure Ltd. has been engaged to perform a vulnerability audit for a client's complex IT infrastructure. After identifying all relevant Information Systems (IS) components, the next crucial step involves setting up and configuring the specialized tools and software required to conduct the audit effectively. This ensures that the audit environment is ready for the subsequent scanning activities.

Which step in the Vulnerability Audit Procedure is **CyberSecure Ltd.** currently executing?

- **A.** Appliance setup and configuration.
 - **B.** Analysis of scan results and generation of a report.
 - **C.** Identify IS components.
 - **D.** Scanning applications, servers, and networks.
-

Answer Key and Explanations**1. Correct Answer: B. Human error**

- **Explanation:** An employee mistakenly entering incorrect data is a classic example of **human error**, which is a recognized IT risk.

2. Correct Answer: A. Insider fraud

- **Explanation:** Mr. Emeka, an employee, used his legitimate access to exploit a loophole and access sensitive data beyond his authorization, which is a clear example of **insider fraud**.

3. Correct Answer: C. Human error

- **Explanation:** The incident of a junior accountant accidentally deleting a critical file due to a mistake is a classic example of **human error**.

4. Correct Answer: B. Regular software updates

- **Explanation:** The recommendation to ensure all operating systems and application software are regularly updated directly corresponds to the protection method of **regular software updates**.

5. Correct Answer: B. Offsite data backups

- **Explanation:** Copying critical client data to a geographically separate location for disaster recovery is a direct application of the '**offsite data backups**' protection method.

6. Correct Answer: C. Password theft

- **Explanation:** Mr. Obi's use of simple, reused passwords makes his accounts vulnerable to **password theft**, especially after a personal account compromise.

7. Correct Answer: C. Executive summary

- **Explanation:** The **Executive summary** is described as typically kept under five pages and provides a high-level overview of findings, implications, and recommendations for executive understanding.

8. Correct Answer: A. Concurrent Audit

- **Explanation:** The scenario describes the examination of transactions as they occur to provide early warning signals, which is the definition of a **Concurrent Audit**.

9. Correct Answer: A. Environmental monitoring

- **Explanation:** Assessing the physical environment, including temperature, humidity, and fire suppression systems, directly relates to the '**environmental monitoring**' key area of a Data Centre Audit.

10. Correct Answer: A. Appliance setup and configuration.

- **Explanation:** Following the identification of IS components, the next step in the Vulnerability Audit Procedure is '**Appliance setup and configuration**', which involves preparing the tools for the audit.

Forensic accounting 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 law firm requires an accounting professional to assist in a complex litigation case involving financial fraud. The professional's role will involve preparing financial evidence and potentially testifying in court.

Which term best describes the specialized field of accounting that focuses on the preparation of financial information to be used as evidence in court proceedings?

- **A. Forensic Accounting**

- **B.** Tax Accounting
 - **C.** Management Accounting
 - **D.** Financial Auditing
-

Question 2

A forensic auditor, **Mr. Ade**, was hired to investigate a fraud case. Due to inadequate planning, he failed to collect crucial electronic evidence. Later, the client lost the legal case, and it was determined that the missing evidence would have significantly strengthened their position.

Which **element of negligence** is most clearly demonstrated by the direct link between **Mr. Ade's** failure to collect evidence and the client's subsequent loss in the legal case?

- **A.** Breach of Duty
 - **B.** Duty of Care
 - **C.** Damages
 - **D.** Causation
-

Question 3

Global Logistics Inc. is assessing its fraud risk for its procurement department. The forensic team estimates the potential **impact** of a significant procurement fraud scheme to be ₦50,000,000 in financial damage and severe reputational harm. They assess the **probability** of such a scheme occurring, considering weak internal controls and a high-pressure business environment, to be 0.4 (40%).

Using the **Fraud Risk Formula** (Fraud Risk = Impact x Probability), what is the calculated monetary fraud risk for **Global Logistics Inc.**'s procurement department?

- **A.** ₦200,000,000
 - **B.** ₦20,000,000
 - **C.** ₦50,000,000
 - **D.** ₦125,000,000
-

Question 4

During a routine internal audit, an accountant at **Zenith Corp.** discovered a discrepancy where a payment was accidentally duplicated due to a software glitch, leading to an overpayment to a vendor. There was no intent to deceive or gain an advantage.

How would this situation, involving an unintentional act, be primarily classified in the context of a fraud framework?

- **A.** Asset Misappropriation
 - **B.** Corruption
 - **C.** Financial Statement Fraud
 - **D.** Error
-

Question 5

Following a car accident caused by a negligent driver, the injured party incurred significant medical bills, lost wages due to time off work, and property damage to their vehicle. A forensic accountant is calculating the monetary awards to restore the injured party to their state before the accident.

Which specific type of **compensatory damages** would cover the quantifiable losses like medical bills and lost wages?

- **A.** General Damages
 - **B.** Consequential Damages
 - **C.** Punitive Damages
 - **D.** Special Damages
-

Question 6

An employee at **RetailHub Stores** was observed taking cash directly from the till without recording the sales. Later, an inventory count revealed significant discrepancies between recorded stock and physical stock, suggesting items were being taken without payment.

Under the **ACFE Categories of Fraud**, which category do these actions primarily fall into?

- **A.** Corruption
 - **B.** Financial Statement Fraud
 - **C.** Asset Misappropriation
 - **D.** Economic Extortion
-

Question 7

During a forensic investigation into a data breach, a junior analyst failed to follow proper chain-of-custody procedures, handling electronic devices without gloves and storing them improperly. This led to questions about the integrity and admissibility of the collected evidence in court.

Which specific incidence of **professional negligence in forensics** is most clearly demonstrated by the analyst's actions, potentially compromising the legal value of the findings?

- **A.** Inexperience

- **B.** Contamination of evidence
 - **C.** Inadequate planning
 - **D.** Reporting errors
-

Question 8

A whistleblower submits an anonymous tip to the management of **FinTech Solutions**, alleging a senior manager is involved in a scheme to divert company funds. Before launching a full-scale investigation, the management needs to determine the credibility of the allegation and its potential impact on the company.

Which stage of the **forensic investigation process** is management currently undertaking?

- **A.** Evidence Collection
 - **B.** Receipt of Allegation
 - **C.** Planning and Preparation
 - **D.** Initial Assessment
-

Question 9

After collecting and analyzing extensive financial data, a forensic investigation team has identified several employees whose statements are inconsistent with the evidence. The team now needs to directly question these individuals to clarify discrepancies and gather further insights.

Which stage of the **forensic investigation process** is the team about to undertake?

- **A.** Data Analysis
 - **B.** Interview and Interrogation
 - **C.** Evidence Collection
 - **D.** Conclusion and Reporting
-

Question 10

A procurement manager at **Construction Innovations Ltd.** consistently awarded contracts to a specific vendor in exchange for personal kickbacks, even though other vendors offered more competitive bids. This arrangement led to inflated project costs for the company.

Under the **ACFE Categories of Fraud**, which category does this act of receiving personal kickbacks in exchange for preferential treatment primarily fall into?

- **A.** Economic Extortion
- **B.** Corruption

- C. Asset Misappropriation
 - D. Financial Statement Fraud
-

Answer Key and Explanations

1. Correct Answer: A. Forensic Accounting

- **Explanation: Forensic Accounting** is defined as the preparation of financial information to be used as evidence in court proceedings.

2. Correct Answer: D. Causation

- **Explanation: Causation** refers to the direct link where the professional's breach of duty directly caused the harm or loss suffered by the client.

3. Correct Answer: B. ₱20,000,000

- **Explanation:** Fraud Risk = Impact × Probability = ₱50,000,000 × 0.4 = **₱20,000,000**.

4. Correct Answer: D. Error

- **Explanation:** An **error** is an unintentional act, which is distinct from fraud, an intentional act involving deception.

5. Correct Answer: D. Special Damages

- **Explanation: Special Damages** are a type of compensatory damages that cover quantifiable monetary losses such as medical bills, lost wages, and property damage.

6. Correct Answer: C. Asset Misappropriation

- **Explanation: Asset misappropriation** involves the theft of cash at hand, theft of cash receipts, fraudulent disbursements, and misuse of inventory or company assets.

7. Correct Answer: B. Contamination of evidence

- **Explanation: Contamination of evidence** refers to poor handling or preservation of evidence, which can compromise its integrity and admissibility in legal proceedings.

8. Correct Answer: D. Initial Assessment

- **Explanation:** The **initial assessment** stage involves determining the credibility of the allegation and its potential impact before proceeding with a full investigation.

9. Correct Answer: B. Interview and Interrogation

- **Explanation: Interview and interrogation** is the stage where witnesses and suspects are questioned after data analysis to clarify findings and gather more information.

10. Correct Answer: B. Corruption

- **Explanation: Corruption** includes conflicts of interest, bribery, illegal gratuities, and economic extortion, where an individual misuses their position for personal gain.

Professional Ethics And Codes Of Conduct

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

Mr. Chike, a Chartered Accountant, is known for always complying with relevant laws and regulations in his professional practice. He also ensures his conduct does not bring discredit to the accountancy profession.

Which fundamental principle is **Mr. Chike** consistently demonstrating?

- **A.** Objectivity
 - **B.** Professional Competence and Due Care
 - **C.** Confidentiality
 - **D.** Professional Behaviour
-

Question 2

Mr. David, an audit partner, is informed by a client's CEO that if the audit report is not favorable, the client will initiate legal action against the audit firm for alleged past service deficiencies. This makes **Mr. David** hesitant to raise certain audit findings.

Which category of threat to the fundamental principles is **Mr. David** experiencing?

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

Question 3

Apex Auditors is the external auditor for **Zenith Power Plc**, a Public Interest Entity. **Zenith Power Plc** has requested **Apex Auditors** to provide bookkeeping services, including preparing their monthly financial statements and posting transactions to the general ledger.

Based on the ICAN Professional Code of Conduct, what is the permissibility of **Apex Auditors** providing these bookkeeping services to **Zenith Power Plc**?

- **A.** It is allowed if the services are routine and mechanical.

- **B.** It is prohibited for Public Interest Entities.
 - **C.** It is permitted if management takes full responsibility for the financial statements.
 - **D.** It is generally acceptable as long as the audit team is not involved.
-

Question 4

Reliable Audits has completed the audit of **Growth Solutions Ltd** for the year ended December 31, 2023. However, **Growth Solutions Ltd** still has significant outstanding fees from the previous year's audit. **Reliable Audits** is preparing to issue the 2023 audit report.

What is the appropriate action for **Reliable Audits** regarding the overdue fees before issuing the new audit report?

- **A.** Ensure the overdue fees are paid before issuing the new audit report.
 - **B.** Issue the report, as overdue fees do not impact independence.
 - **C.** Disclose the overdue fees in the audit report as a going concern issue.
 - **D.** Issue the report, but charge a late payment penalty on the overdue fees.
-

Question 5

To ensure high standards of professional conduct, ICAN mandates continuous professional development (CPD) requirements for all its members. This helps members maintain their professional knowledge and skill.

This requirement for CPD falls under which category of safeguards against threats to fundamental principles?

- **A.** Safeguards in the work environment.
 - **B.** Safeguards against intimidation threats.
 - **C.** Safeguards created by the profession/law.
 - **D.** Safeguards created by the individual.
-

Question 6

Ms. Ada, an audit manager, owns a small number of shares in **Tech Innovations Ltd**, a company her firm is currently auditing. She believes her shareholding is too small to influence her professional judgment.

Which category of threat to the fundamental principles is most relevant in this situation?

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

Question 7

ICAN has adopted the IESBA (IFAC) Code of Ethics, which is described as a principles-based code.

What is a key characteristic of a principles-based code of ethics, as adopted by ICAN?

- **A.** It focuses solely on legal compliance rather than ethical considerations.
 - **B.** It cannot plan for complex scenarios, making it less effective.
 - **C.** It requires the use of professional judgement to decide if a course of action is ethical.
 - **D.** It provides a rigid set of rules for every conceivable situation.
-

Question 8

Elite Auditors provides audit services to **Capital Bank Plc**, a Public Interest Entity. **Capital Bank Plc** has requested **Elite Auditors** to assist with the calculation of its corporate income tax liability, which will then be used to prepare the tax provision in the financial statements.

Based on the ICAN Professional Code of Conduct, what is the permissibility of **Elite Auditors** performing these tax calculations for **Capital Bank Plc's** accounting entries?

- **A.** It is allowed if the tax calculations are routine and mechanical.
 - **B.** It is permitted if a separate tax department within the firm handles it.
 - **C.** It is prohibited for Public Interest Entities.
 - **D.** It is generally acceptable if management takes responsibility for the tax return.
-

Question 9

Trustworthy Auditors is the external auditor for **MegaBank Plc**, a Public Interest Entity. **MegaBank Plc** has requested **Trustworthy Auditors** to perform a valuation of a significant portion of its investment property portfolio, which is material to the financial statements.

Based on the ICAN Professional Code of Conduct, what is the permissibility of **Trustworthy Auditors** providing this valuation service to **MegaBank Plc**?

- **A.** It is allowed if the valuation involves low subjectivity.
 - **B.** It is generally acceptable if management takes responsibility for the valuation.
 - **C.** It is prohibited for Public Interest Entities if the valuation is material.
 - **D.** It is permitted if the valuation is performed by a separate team within the firm.
-

Question 10

Legal & Audit Partners is the external auditor for **Innovate Tech Ltd**. The client is currently involved in a major litigation, and **Legal & Audit Partners** has been asked to represent **Innovate Tech Ltd** in court, arguing their position against the opposing party.

Which category of threat to the fundamental principles is most likely to arise if **Legal & Audit Partners** accepts this role?

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

Answer Key and Explanations

1. Correct Answer: D. Professional Behaviour

- **Explanation: Professional Behaviour** involves complying with relevant laws and regulations and avoiding conduct that might discredit the profession.

2. Correct Answer: D. Intimidation Threat

- **Explanation: An intimidation threat** occurs when a member is deterred from acting objectively by actual or perceived threats, such as the threat of litigation.

3. Correct Answer: B. It is prohibited for Public Interest Entities.

- **Explanation: The provision of accounting/bookkeeping services** is strictly **prohibited for Public Interest Entities** by assurance firms that also serve as their external auditors.

4. Correct Answer: A. Ensure the overdue fees are paid before issuing the new audit report.

- **Explanation: Overdue fees** effectively constitute a loan from the auditor to the client, which can impair independence. Therefore, they should be **paid before a new audit report is issued**.

5. Correct Answer: C. Safeguards created by the profession/law.

- **Explanation: Education, training, and CPD requirements** are examples of **safeguards created by the profession or law** to ensure members maintain professional competence.

6. Correct Answer: B. Self-interest Threat

- **Explanation: A self-interest threat** occurs due to financial or other interests of members or their immediate family, such as **owning shares in a client**.

7. Correct Answer: C. It requires the use of professional judgement to decide if a course of action is ethical.

- **Explanation: A principles-based code** requires the use of **professional judgement** to decide if a course of action is ethical, as opposed to a rigid rules-based code.

8. Correct Answer: C. It is prohibited for Public Interest Entities.

- **Explanation:** While tax services are generally acceptable, **tax calculations for Public Interest Entity accounting entries** are specifically **prohibited** for the assurance firm.

9. Correct Answer: C. It is prohibited for Public Interest Entities if the valuation is material.

- **Explanation:** **Valuation services** are **prohibited for Public Interest Entities** if the valuation is **material** to the financial statements.

10. Correct Answer: D. Advocacy Threat

- **Explanation:** An **advocacy threat** occurs when a member promotes a client's position to the point that objectivity is compromised, such as acting as a client's **advocate in litigation**.

Internal Audit

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 management of **GreenHarvest Farms** is conducting a 'Best Value' review of its agricultural machinery maintenance services. They are questioning why certain maintenance tasks are performed in-house rather than outsourced, and whether current procedures are the most effective way to ensure machinery uptime. They are looking for innovative approaches.

Which of the '4 Cs' of Best Value is GreenHarvest Farms primarily engaging in?

- **A. Consult**
 - **B. Compare**
 - **C. Compete**
 - **D. Challenge**
-

Question 2

TransGlobal Logistics operates a large fleet of delivery vehicles. The internal audit department was recently tasked with reviewing whether all drivers possess valid licenses, vehicles undergo mandatory safety checks on schedule, and fuel consumption records are accurately maintained according to company policy. The objective is to ensure adherence to both internal guidelines and external road safety regulations.

Which specific type of internal audit assignment is being conducted by TransGlobal Logistics?

- **A. Compliance Review**
- **B. Special Investigation**

- C. Examination of Information
 - D. Value for Money (VFM) Audit
-

Question 3

Leisure Resorts Ltd. identified a minor risk of occasional power outages at one of its remote resort locations. The cost of implementing a full backup generator system was deemed prohibitively expensive, and the impact of short outages was considered minimal, primarily causing minor inconvenience to guests for brief periods. Management decided not to take any specific action.

Which risk management strategy did Leisure Resorts Ltd. adopt in this situation?

- A. Risk Transfer
 - B. Risk Acceptance
 - C. Risk Reduction
 - D. Risk Avoidance
-

Question 4

Coastal Shipping Lines operates a large fleet of cargo vessels. The company identified a high risk of piracy in certain international waters. After careful consideration, management decided to cease operations in those high-risk zones entirely, rerouting its vessels through safer, albeit longer, routes. This decision was made to completely eliminate the exposure to piracy.

Which risk management strategy did Coastal Shipping Lines implement?

- A. Risk Acceptance
 - B. Risk Avoidance
 - C. Risk Reduction
 - D. Risk Transfer
-

Question 5

AquaPure Water Company identified a significant risk of equipment breakdown in its water purification plant, which could lead to production halts. To manage this risk, the company decided to purchase a comprehensive insurance policy that covers financial losses resulting from such breakdowns, including repair costs and lost revenue.

Which risk management strategy is AquaPure Water Company employing?

- A. Risk Avoidance
- B. Risk Reduction

- C. Risk Transfer
 - D. Risk Acceptance
-

Question 6

The local government council of **Oasis City** is conducting a 'Best Value' review of its public library services. As part of this process, the council is holding public forums, distributing surveys, and meeting with various community groups to gather feedback on their needs and satisfaction with the library's offerings. The goal is to ensure services are user-centric.

Which of the '4 Cs' of Best Value is Oasis City primarily focusing on in this activity?

- A. Compare
 - B. Compete
 - C. Consult
 - D. Challenge
-

Question 7

SecureBank Nigeria identified a significant risk of cyber-attacks on its customer data systems. The internal audit team recommended implementing multi-factor authentication, advanced encryption protocols, and regular employee cybersecurity training to mitigate this threat. These measures are designed to reduce the likelihood and impact of a data breach.

Which risk management strategy is SecureBank Nigeria primarily employing based on the internal audit's recommendations?

- A. Risk Reduction
 - B. Risk Avoidance
 - C. Risk Acceptance
 - D. Risk Transfer
-

Question 8

Capital Investments Bank is concerned about its exposure to market fluctuations. The internal audit department is tasked with identifying and assessing potential losses arising from changes in interest rates, foreign exchange rates, and the creditworthiness of its loan portfolio. They are also evaluating the impact of new tax regulations on the bank's profitability.

Which category of risk is the internal audit department primarily focusing on in this assessment?

- A. Compliance Risk

- **B. Operational Risk**
 - **C. Financial Risk**
 - **D. Strategic Risk**
-

Question 9

Urban Development Agency recently established an internal audit unit. The agency's management emphasized that this unit was created solely to improve internal governance and operational efficiency, and not because any external law or regulation mandated its existence.

Based on this context, what is a fundamental characteristic of internal audit regarding its establishment?

- **A. It is carried out on a voluntary basis.**
 - **B. It is a prerequisite for obtaining external audit opinions.**
 - **C. It is primarily driven by external regulatory bodies.**
 - **D. It is always a statutory requirement for public sector entities.**
-

Question 10

The local government council of **Riverside Municipality** is undertaking a 'Best Value' review of its waste management services. As part of this review, the council is actively gathering data on the performance and cost-effectiveness of waste collection and disposal services provided by other similar municipalities and private contractors across the region.

Which of the '4 Cs' of Best Value is Riverside Municipality primarily focusing on in this activity?

- **A. Challenge**
 - **B. Compete**
 - **C. Consult**
 - **D. Compare**
-

Answer Key and Explanations

1. Correct Answer: D. Challenge

- **Explanation:** Asking why and how a service is provided, and seeking innovative approaches, is the essence of the '**Challenge**' element within the Best Value framework.

2. Correct Answer: A. Compliance Review

- **Explanation:** Checking adherence to laws, regulations, and management policies is the definition of a **compliance review**.

3. Correct Answer: B. Risk Acceptance

- **Explanation:** Doing nothing about a risk, used only if the risk is insignificant or the cost of mitigation outweighs the potential impact, is known as **risk acceptance**.

4. Correct Answer: B. Risk Avoidance

- **Explanation:** Withdrawing from an operation or activity to eliminate exposure to a specific risk is known as **risk avoidance**.

5. Correct Answer: C. Risk Transfer

- **Explanation:** Shifting risk to third parties, typically via insurance, to cover potential financial losses is known as **risk transfer**.

6. Correct Answer: C. Consult

- **Explanation:** Meeting with users to ensure their needs are met and gathering feedback on satisfaction is a key aspect of the '**Consult**' element.

7. Correct Answer: A. Risk Reduction

- **Explanation:** Implementing controls to minimize the probability or impact of a risk is characteristic of a **risk reduction** strategy.

8. Correct Answer: C. Financial Risk

- **Explanation:** Exposures to changes in interest rates, taxes, exchange rates, and credit defaults are all characteristics of **financial risk**.

9. Correct Answer: A. It is carried out on a voluntary basis.

- **Explanation:** Internal audit is carried out on a **voluntary basis** by an entity for its own internal control purposes, as there is no statutory requirement for its establishment.

10. Correct Answer: D. Compare

- **Explanation:** Benchmarking against other similar organizations or services to assess performance and cost-effectiveness is a key aspect of the '**Compare**' element.

Audit planning and risk

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

During the audit of **Eco-Friendly Solutions Plc.**, the auditors discover that the company has not fully complied with certain environmental protection regulations regarding waste disposal. These regulations impose significant fines and could lead to the revocation of operating licenses, potentially affecting the company's ability to continue as a going concern and the valuation of its assets.

According to ISA 250, what is the auditor's primary responsibility regarding this non-compliance with laws and regulations?

- **A.** To immediately report the non-compliance to the environmental protection agency.
 - **B.** To ignore the non-compliance if it does not directly impact the financial statements.
 - **C.** To assume management will rectify the issue without auditor intervention.
 - **D.** To obtain evidence regarding compliance with laws that have a direct effect on material amounts in financial statements and report non-compliance to those charged with governance.
-

Question 2

A forensic accountant is investigating a case of significant asset misappropriation within **Swift Logistics Inc.**, where a senior manager created fictitious suppliers and diverted payments over several years. The board of directors questions the role of the external auditors in preventing and detecting such fraud, believing it was their primary duty.

While auditors have responsibilities regarding fraud, who is primarily responsible for the prevention and detection of fraud within **Swift Logistics Inc.** ?

- **A.** The regulatory authorities
 - **B.** The internal audit department
 - **C.** Management and those charged with governance
 - **D.** The external auditors
-

Question 3

It is January 15th, and the audit team for **Global Exports Ltd.** is performing procedures for the financial year ended December 31st. They are currently focusing on verifying the existence and valuation of inventory held in various warehouses and confirming accounts receivable balances with customers.

Which of the following procedures is most characteristic of a **final audit procedure** performed after year-end?

- **A.** Substantive testing of year-end balances.
 - **B.** Updating the understanding of the entity and environment.
 - **C.** Testing the design effectiveness of internal controls over cash receipts.
 - **D.** Assessing inherent risk for the revenue cycle.
-

Question 4

The audit team for **Urban Developers Ltd.** has determined an overall materiality of ₦20,000,000 for the financial statements as a whole. However, they are also setting a lower figure for individual account balances

and classes of transactions, recognizing that several individually immaterial misstatements could, in aggregate, exceed the overall materiality and mislead users.

What is the specific term for this lower figure, and what is its primary purpose?

- **A. Overall Materiality;** to determine the scope of the audit.
 - **B. Performance Materiality;** to account for the risk that the aggregate of individually immaterial misstatements may exceed overall materiality.
 - **C. Planning Materiality;** to reduce the audit effort.
 - **D. Specific Materiality;** to identify all potential fraud.
-

Question 5

An audit team is tasked with auditing **SolarTech Energy Ltd.**, a company specializing in renewable energy solutions. To effectively assess risks, the auditors need to gain a deep understanding of the client's operations, the specific technologies it uses, and the regulatory landscape it operates within.

Which of the following areas of knowledge is **required** for the auditors to understand **SolarTech Energy Ltd.** and its environment, according to ISA 315?

- **A.** The personal investment portfolios of the company's directors.
 - **B.** The specific brand preferences of the company's end consumers.
 - **C.** Detailed market share data for all competitors in the renewable energy sector.
 - **D.** The relevant industry, regulatory factors, and the nature of the entity's operations.
-

Question 6

The audit team for **DataSecure Solutions** is planning its substantive procedures for the audit of complex software development costs. They understand that even with well-designed and executed procedures, there's always a risk that a material misstatement might not be detected due to inherent limitations of auditing.

According to the audit risk model, **detection risk** is comprised of which two specific types of risk?

- **A.** Fraud risk and error risk
 - **B.** Inherent risk and control risk
 - **C.** Business risk and financial risk
 - **D.** Sampling risk and non-sampling risk
-

Question 7

The audit engagement team for **Capital Investments Ltd.** has completed its assessment of the client's internal controls and identified several significant weaknesses in the financial reporting process, particularly

concerning the reconciliation of investment portfolios. This assessment has led to a conclusion that both inherent risk and control risk are high.

According to the operational logic of the audit risk model, how should the auditors respond to these high client risks (inherent and control risk) to achieve an acceptably low audit risk?

- **A.** Increase the acceptable level of detection risk.
 - **B.** Rely solely on management representations.
 - **C.** Decrease the extent of substantive testing.
 - **D.** Increase the extent and rigor of substantive testing to lower detection risk.
-

Question 8

An audit team is beginning the audit of **AquaPure Water Ltd.**, a company that bottles and distributes purified water. To understand the entity and its environment, the auditors are performing various risk assessment procedures. They are particularly interested in identifying potential risks of material misstatement related to inventory valuation and revenue recognition, given the perishable nature of some products and high sales volumes.

Which combination of risk assessment procedures would be most effective for the auditors to gain the required knowledge about **AquaPure Water Ltd.**'s operations and identify potential risks?

- **A.** Obtaining third-party confirmations for all major customers and suppliers.
 - **B.** Reviewing subsequent events and obtaining written representations from management.
 - **C.** Inquiring of management about sales processes, observing the bottling plant operations, and inspecting internal control manuals.
 - **D.** Solely performing substantive analytical procedures on prior year financial statements.
-

Question 9

The auditors of **Phoenix Technologies** have determined that the inherent risk (IR) and control risk (CR) for the company's complex research and development expenditure are both very high due to the specialized nature of the projects and limited oversight. Consequently, the acceptable detection risk (DR) has been set at a very low level to maintain the overall acceptable audit risk.

Given the very low acceptable detection risk, what implication does this have for the auditor's planned substantive procedures?

- **A.** The auditor can reduce the extent of substantive testing.
- **B.** The auditor can issue an unmodified opinion without further testing.
- **C.** The auditor must perform more extensive substantive tests.
- **D.** The auditor should rely primarily on internal controls.

Question 10

The auditors of **Precision Engineering Plc.** have assessed that the company operates in a highly regulated industry with complex transactions, leading to a high inherent risk. However, the company has implemented very strong internal controls, resulting in a low control risk, which effectively mitigates many potential misstatements.

Given a high inherent risk and a low control risk, what is the likely implication for the acceptable level of detection risk (DR) if the auditor aims to maintain an overall low audit risk (AR)?

- **A.** Detection risk can be set at a moderate to high level.
- **B.** Detection risk is irrelevant in this scenario.
- **C.** Detection risk must be set at a very low level.
- **D.** Detection risk must be equal to inherent risk.

Answer Key and Explanations

1. Correct Answer: D. To obtain evidence regarding compliance with laws that have a direct effect on material amounts in financial statements and report non-compliance to those charged with governance.

- **Explanation:** The auditor must obtain evidence regarding compliance with laws that have a direct effect on material amounts in financial statements and report non-compliance to **those charged with governance**.

2. Correct Answer: C. Management and those charged with governance

- **Explanation: Management** is primarily responsible for the prevention and detection of fraud. Auditors have responsibilities to identify risks and respond, but the primary responsibility rests with management and governance.

3. Correct Answer: A. Substantive testing of year-end balances.

- **Explanation:** Final audit procedures, performed after year-end, include **substantive testing of year-end balances**, obtaining third-party confirmations, and performing analytical review of the full year.

4. Correct Answer: B. Performance Materiality; to account for the risk that the aggregate of individually immaterial misstatements may exceed overall materiality.

- **Explanation: Performance Materiality** is set at a lower figure than overall materiality to account for the risk that the aggregate of individually immaterial misstatements may exceed overall materiality.

5. Correct Answer: D. The relevant industry, regulatory factors, and the nature of the entity's operations.

- **Explanation:** Required knowledge of the entity includes understanding the **relevant industry/regulatory factors**, the nature of the entity (operations, ownership, and governance), and the selection of accounting policies.

6. Correct Answer: D. Sampling risk and non-sampling risk

- **Explanation: Detection Risk** is comprised of **sampling risk** (risk that a conclusion based on a sample may differ from a conclusion on the entire population) and **non-sampling risk** (other aspects, such as inappropriate procedures).

7. Correct Answer: D. Increase the extent and rigor of substantive testing to lower detection risk.

- **Explanation:** If Inherent Risk (IR) and Control Risk (CR) are high, the auditor must **lower Detection Risk (DR)** to maintain an acceptably low Audit Risk (AR). This requires performing more extensive and rigorous substantive tests.

8. Correct Answer: C. Inquiring of management about sales processes, observing the bottling plant operations, and inspecting internal control manuals.

- **Explanation:** Risk assessment procedures include **inquiries, observation, and inspection**. This combination directly helps in understanding the entity and identifying risks.

9. Correct Answer: C. The auditor must perform more extensive substantive tests.

- **Explanation:** To **lower Detection Risk (DR)**, the auditor must perform more tests. A very low acceptable detection risk implies that the auditor's procedures must be highly effective, requiring more extensive substantive tests.

10. Correct Answer: A. Detection risk can be set at a moderate to high level.

- **Explanation:** If Inherent Risk (IR) is high but Control Risk (CR) is low, the combined client risk might be moderate. To maintain low Audit Risk (AR), the auditor can afford a **higher Detection Risk (DR)**.

Evidence and Sampling

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

What does audit sampling primarily involve, according to ISA 530?

- **A.** Applying audit procedures to less than 100% of a population to draw conclusions about the whole.
 - **B.** Applying audit procedures only to items with a high risk of misstatement.
 - **C.** Applying audit procedures to all material items in a population.
 - **D.** Applying audit procedures to 100% of a population.
-

Question 2

An auditor for **Secure Vault Security Services** is performing an audit of internal controls over cash handling. The auditor stands in the cash office and watches the cashiers receive payments, issue receipts, and prepare daily cash summaries.

Which audit procedure is the auditor primarily performing?

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

Question 3

An auditor for **Dynamic Innovations Plc** is examining various documents to gather evidence. The auditor reviews supplier invoices to verify the cost of purchases, inspects bank statements to confirm cash balances, and examines title deeds to ascertain ownership of property.

Which audit procedure is the auditor primarily performing across these actions?

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

Question 4

An auditor for **Seasonal Products Inc.** is reviewing sales transactions around the year-end. The auditor compares the dates on shipping documents for goods dispatched in the last week of December with the dates recorded in the sales journal and general ledger to ensure that revenue is recognized in the correct accounting period.

Which financial statement assertion for classes of transactions is the auditor primarily testing?

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

Question 5

An auditor for **Quantum Innovations** is testing a population of ₦1,200,000 in inventory. A sample with a total recorded value of ₦150,000 is selected. The auditor discovers misstatements in the sample amounting to ₦4,500.

Calculate the projected misstatement for the entire inventory population, rounding to the nearest whole number. Which of the following is correct?

- A. ₦36,000
 - B. ₦4,500
 - C. ₦60,000
 - D. ₦3,600
-

Question 6

An auditor for **Heritage Antiques** is verifying the purchase of a rare artifact. The client provides a scanned digital copy of the purchase invoice. The auditor requests to see the original paper invoice, stating that it would provide more reliable evidence.

Why is the original paper document generally considered more reliable than a digitized version?

- A. Original documents are more reliable than photocopies or digitized versions.
 - B. Scanned copies are not considered documentary evidence.
 - C. Digitized versions are harder to store and retrieve.
 - D. The auditor prefers paper documents for personal convenience.
-

Question 7

An auditor for **Tech Solutions Ltd.** is performing tests of details on a population of ₦5,000,000 in accounts payable. The auditor selects a sample with a total value of ₦500,000. Within this sample, the auditor identifies misstatements totaling ₦15,000. The tolerable misstatement for accounts payable is ₦100,000.

Using the projection formula, what is the projected misstatement for the entire population?

- A. ₦15,000
 - B. ₦75,000
 - C. ₦150,000
 - D. ₦100,000
-

Question 8

The auditor for **Multi-Sector Holdings** is reviewing the general ledger entries. The auditor notices that a significant repair expense for a factory machine has been debited to the "Property, Plant, and Equipment" account instead of the "Repairs and Maintenance Expense" account.

Which financial statement assertion for classes of transactions is primarily violated in this scenario?

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

Question 9

During the audit of **Phoenix Retailers**, the auditor performs a physical count of inventory at the client's warehouse. The auditor compares the quantities counted to the client's inventory records to ensure that the recorded inventory items actually exist.

Which financial statement assertion for account balances is the auditor primarily testing with this procedure?

- **A. Existence**
 - **B. Completeness**
 - **C. Accuracy, Valuation, and Allocation**
 - **D. Rights and Obligations**
-

Question 10

The auditor of **Luxury Cars Dealership** is auditing the inventory of vehicles. The inventory consists of a few very high-value luxury cars and a large number of lower-value standard cars. To ensure appropriate coverage and efficiency, the auditor decides to divide the inventory into two groups based on value and then select samples independently from each group.

Which sample selection method is the auditor employing?

- **A. Systematic Selection**
 - **B. Haphazard Selection**
 - **C. Random Selection**
 - **D. Stratified Sampling**
-

Answer Key and Explanations

1. Correct Answer: A. Applying audit procedures to less than 100% of a population to draw conclusions about the whole.

- **Explanation:** Audit sampling involves applying audit procedures to **less than 100% of a population** to draw conclusions about the whole.

2. Correct Answer: C. Observation

- **Explanation: Observation** involves watching a procedure being performed by others. The auditor watching cashiers perform their duties is a direct application of observation.

3. Correct Answer: B. Inspection

- **Explanation: Inspection** involves examining records, documents, or physical assets. Reviewing invoices, bank statements, and title deeds are all forms of inspection.

4. Correct Answer: A. Cutoff

- **Explanation: Cutoff** refers to transactions being recorded in the correct accounting period. Comparing shipping dates to recording dates directly tests cutoff.

5. Correct Answer: A. ₦36,000

- **Explanation:** Projected Misstatement = (Sample Misstatement / Total Value of Sample) × Total Population Value = (₦4,500 / ₦150,000) × ₦1,200,000 = **₦36,000**.

6. Correct Answer: A. Original documents are more reliable than photocopies or digitized versions.

- **Explanation:** The hierarchy of evidence reliability states that **original documents are more reliable than photocopies or digitized versions**.

7. Correct Answer: C. ₦150,000

- **Explanation:** Projected Misstatement = (₦15,000 / ₦500,000) × ₦5,000,000 = 0.03 × ₦5,000,000 = **₦150,000**.

8. Correct Answer: A. Classification

- **Explanation: Classification** for transactions ensures that transactions are recorded in the proper accounts. Debiting a repair expense to an asset account violates classification.

9. Correct Answer: A. Existence

- **Explanation:** The auditor is testing whether assets, liabilities, and equity interests actually exist. A physical count of inventory directly addresses the **existence** assertion.

10. Correct Answer: D. Stratified Sampling

- **Explanation: Stratified Sampling** involves dividing a nonhomogeneous population into discrete subpopulations (strata) that share similar characteristics to increase efficiency.

Internal control

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 manufacturing company, **Prime Products Ltd.**, is evaluating its internal control system. The board of directors wants to ensure that the system is robust enough to prevent material misstatements in financial reports, safeguard company assets, and ensure adherence to environmental regulations.

Which fundamental objective of internal control is **Prime Products Ltd.** primarily focusing on by ensuring adherence to environmental regulations?

- A. Reliability of reporting
 - B. Compliance with applicable laws and regulations
 - C. Safeguarding of assets
 - D. Effectiveness and efficiency of operations
-

Question 2

During the annual audit of **Family Foods Co.**, the external auditor identified several weaknesses in the internal control system, particularly concerning inventory management. The auditor promptly reported these to the board.

Who is solely responsible for the design and implementation of internal controls to address financial, operational, and compliance risks at **Family Foods Co.** ?

- A. The external auditor
 - B. The internal audit department
 - C. The board of directors and management jointly
 - D. Management
-

Question 3

A new employee is being set up in the payroll system of **Corporate Services Ltd.** When entering the employee's department code, the system automatically verifies that the entered code corresponds to an actual, active department listed in the company's master department file.

This validation technique is known as a(n). Which of the following is correct?

- A. Control total
 - B. Existence check
 - C. Check digit
 - D. Range check
-

Question 4

An online registration system for a university course requires students to enter their matriculation number. The system is designed to only accept numbers between 100000 and 999999.

This control, which ensures input data falls within a preset parameter, is known as a(n). Which of the following is correct?

- A. Check digit
 - B. Existence check
 - C. Range check
 - D. Control total
-

Question 5

A junior auditor at **AuditLink Associates** is tasked with documenting the purchasing cycle of a small client, **Local Crafts Co.**, which has a relatively simple and straightforward process. The auditor wants a method that is easy to prepare initially.

Which documentation method, while simple to prepare, can become lengthy and difficult to update for complex systems?

- A. Systems Flowcharts
 - B. Internal Control Questionnaire (ICQ)
 - C. Internal Control Evaluation Questionnaire (ICEQ)
 - D. Narrative Notes
-

Question 6

The finance department at **Dynamic Services Inc.** regularly reviews its bank reconciliations, investigates unusual variances, and updates its policies and procedures based on identified control deficiencies. The internal audit department also conducts periodic reviews of various operational controls.

These activities by **Dynamic Services Inc.** are examples of which component of internal control according to ISA 315?

- A. Monitoring of Controls
 - B. The Entity's Risk Assessment Process
 - C. The Control Environment
 - D. Control Activities
-

Question 7

FutureTech Innovations regularly conducts workshops where management identifies potential threats to its business objectives, such as new competitor products, changes in technology, and shifts in customer preferences. They then analyze the likelihood and impact of these risks and develop strategies to mitigate them.

This systematic process at **FutureTech Innovations** aligns with which component of internal control according to ISA 315?

- **A.** The Control Environment
 - **B.** The Information System
 - **C.** The Entity's Risk Assessment Process
 - **D.** Control Activities
-

Question 8

SecureVault Bank implements several measures to protect its physical assets. These include restricted access to the server room, security cameras monitoring cash handling areas, and regular reconciliation of inventory counts with accounting records.

Restricted access to the server room and security cameras are examples of which type of control activity?

- **A.** Performance reviews
 - **B.** Information processing
 - **C.** Segregation of duties
 - **D.** Physical controls
-

Question 9

Two employees in the accounts payable department of **Manufacturing Giants Plc.**, one responsible for approving invoices and the other for initiating payments, secretly conspire to create and process fictitious invoices from a shell company they own.

This scenario illustrates which inherent limitation of internal control?

- **A.** Cost-effectiveness
 - **B.** Collusion
 - **C.** Management override
 - **D.** Human error
-

Question 10

An auditor is preparing a management letter for **FastTrack Logistics**. The auditor observed that "Drivers are not required to obtain customer signatures for proof of delivery for all packages."

This observation would typically be documented under which section of the management letter?

- **A. Weakness**
- **B. Consequence**
- **C. Management Response**
- **D. Recommendation**

Answer Key and Explanations

1. Correct Answer: B. Compliance with applicable laws and regulations

- **Explanation:** The objective of ensuring adherence to environmental regulations directly falls under the category of **compliance with applicable laws and regulations**.

2. Correct Answer: D. Management

- **Explanation: Management** is solely responsible for the design and implementation of internal controls to address financial, operational, and compliance risks. The auditor's role is to assess and evaluate these existing controls.

3. Correct Answer: B. Existence check

- **Explanation:** An **existence check** is an IT validation technique that verifies that a specific code (like a department code or customer ID) actually exists in the system master file.

4. Correct Answer: C. Range check

- **Explanation:** A **range check** is an IT validation technique that ensures input data falls within a preset parameter or acceptable range (e.g., numbers between 100000 and 999999).

5. Correct Answer: D. Narrative Notes

- **Explanation: Narrative notes** are a written description of the flow of transactions and controls. They are simple to prepare for straightforward systems but can become lengthy and difficult to update for complex systems.

6. Correct Answer: A. Monitoring of Controls

- **Explanation: Monitoring of Controls** involves management's systematic review of whether controls are operating as intended. Regular reviews, investigation of variances, and internal audit activities are all examples of monitoring controls.

7. Correct Answer: C. The Entity's Risk Assessment Process

- **Explanation:** The **Entity's Risk Assessment Process** is the process management uses to identify, assess, and manage business risks that could prevent the entity from achieving its objectives.

8. Correct Answer: D. Physical controls

- **Explanation: Physical controls** are specific policies and procedures designed to safeguard assets. Restricted access to facilities and surveillance are direct examples of physical controls.

9. Correct Answer: B. Collusion

- **Explanation: Collusion** refers to two or more people working together to bypass or circumvent internal controls. Two employees conspiring to process fictitious invoices directly demonstrates this limitation.

10. Correct Answer: A. Weakness

- **Explanation:** The '**Weakness**' section of a management letter describes the identified failure or deficiency in the internal control system. The observation about missing signatures is a direct description of such a control weakness.

Tests of controls

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's finance department receives cash and cheque payments from customers daily. The auditor observes that these receipts are often accumulated for several days before being deposited into the bank account.

Which of the following bank controls is being neglected in this situation?

- **A.** Requirement of two signatures for large cheques.
 - **B.** Periodic surprise checks by an independent official.
 - **C.** Daily banking of all receipts.
 - **D.** Safe custody of cheque books.
-

Question 2

An auditor is conducting a preliminary review of a client's internal control system. To systematically identify strengths and weaknesses across various cycles, the auditor uses a structured list of questions where a 'Yes' answer indicates a control strength and a 'No' answer indicates a weakness.

Which recording and evaluation format is the auditor using in this scenario?

- **A.** Internal Control Questionnaire (ICQ).
- **B.** Management Letter Format.

- C. Narrative notes.
 - D. Systems flowchart.
-

Question 3

Following the completion of an audit, the audit team has identified several significant weaknesses in the client's internal control system, particularly concerning the revenue cycle. They have also assessed the potential impact of these weaknesses on the financial statements.

Which audit communication format is specifically designed to formally report these identified weaknesses, their consequences, and the auditor's recommendations to management?

- A. Management Letter Format.
 - B. Narrative notes.
 - C. Systems flowchart.
 - D. Internal Control Questionnaire (ICQ).
-

Question 4

An auditor is documenting the client's sales system for the first time. The system is relatively straightforward, with a clear sequence of manual steps and responsibilities. The auditor wants a detailed, written description of the system.

Which recording format would be most appropriate for capturing a detailed, written description of the client's sales system?

- A. Management Letter Format.
 - B. Narrative notes.
 - C. Systems flowchart.
 - D. Internal Control Questionnaire (ICQ).
-

Question 5

A company's human resources department is responsible for onboarding new employees and updating personnel records, including pay rates. However, there is no independent verification of new hires or changes to pay rates before they are processed by the payroll department.

Which of the following payroll risks is most directly increased by this lack of independent verification?

- A. Payments made to phantom employees (former staff or nonexistent people).
- B. Failure to reconcile total monthly payroll costs.
- C. Delays in processing employee salary payments.

- **D.** Incorrect calculation of tax and bonuses for existing employees.
-

Question 6

A technology startup frequently invests in new equipment and software licenses. The auditor notes that while an asset register is maintained, many significant capital expenditures are made based on verbal agreements or informal emails, without formal, documented authorization.

Which key non-current asset control is not being effectively implemented in this situation?

- **A.** Formal capital expenditure authorization.
 - **B.** Maintenance of an asset register.
 - **C.** Procedures to identify obsolete inventory.
 - **D.** Cross-referencing to ownership documents.
-

Question 7

A retail company maintains a large inventory of various products. The auditor observes that while physical counts are performed regularly, there are no formal procedures in place to identify and write down obsolete or damaged items. These items remain in the inventory records at their original cost.

Which specific inventory control is lacking in this scenario, potentially leading to misstated inventory values?

- **A.** Restricted access to storage areas.
 - **B.** Procedures to identify obsolete or damaged items.
 - **C.** Reviewing documentation for authorized inventory issues.
 - **D.** Regular physical inventory counts.
-

Question 8

During the audit of a manufacturing company, the audit team is reviewing the dispatch and invoicing process. They observe that Goods Delivery Notes (GDNs) are pre-numbered, but there is no consistent procedure to ensure that every GDN is matched to a specific sales invoice.

What is the primary risk that this control weakness in the invoicing process aims to mitigate?

- **A.** Invoices being generated for goods not actually delivered.
 - **B.** Delays in the delivery of goods to customers.
 - **C.** Goods being dispatched but not invoiced, leading to loss of revenue.
 - **D.** Goods being dispatched without proper customer authorization.
-

Question 9

A medium-sized trading company handles a significant volume of cash receipts. The auditor observes that cash is often held in the office safe for several days before being deposited into the bank. Additionally, only one signature is required for cheques below ₦500,000.

Which of the following risks is most directly heightened by these control weaknesses in the bank and cash system?

- **A.** Orders accepted from customers exceeding credit limits.
 - **B.** Incorrect calculation of tax and bonuses.
 - **C.** Misappropriation of cash and unrecorded receipts.
 - **D.** Goods dispatched but not invoiced.
-

Question 10

A client has recently implemented a new Enterprise Resource Planning (ERP) system that processes a high volume of transactions electronically. Many of the processing steps occur within the system without generating traditional paper documents.

Why are Computer-Assisted Audit Techniques (CAATs) particularly necessary in such an environment?

- **A.** To reduce the overall cost of the audit to the client.
 - **B.** To provide management with real-time financial reporting.
 - **C.** To replace all manual audit procedures entirely.
 - **D.** Because IT systems often lack a paper audit trail and processing is invisible or electronic.
-

Answer Key and Explanations**1. Correct Answer: C. Daily banking of all receipts.**

- **Explanation:** A fundamental bank control is the **daily banking of all receipts**. Delaying deposits increases the risk of misappropriation or loss of cash.

2. Correct Answer: A. Internal Control Questionnaire (ICQ).

- **Explanation:** An **Internal Control Questionnaire (ICQ)** is a specific audit tool consisting of a list of questions designed to identify control strengths and weaknesses.

3. Correct Answer: A. Management Letter Format.

- **Explanation:** The **Management Letter Format** is a specific report used by auditors to communicate identified control weaknesses, their consequences, and recommendations to management.

4. Correct Answer: B. Narrative notes.

- **Explanation: Narrative notes** are a documentation format used by auditors to provide a detailed, written description of a client's system, particularly suitable for straightforward systems.

5. Correct Answer: A. Payments made to phantom employees (former staff or nonexistent people).

- **Explanation:** Without independent verification, there is a significant risk that fictitious employees ('phantom employees') could be added to the payroll, leading to unauthorized payments.

6. Correct Answer: A. Formal capital expenditure authorization.

- **Explanation: Formal capital expenditure authorization** is a critical control for non-current assets. The absence of documented approval increases the risk of unauthorized or imprudent spending.

7. Correct Answer: B. Procedures to identify obsolete or damaged items.

- **Explanation:** Without formal procedures to identify obsolete or damaged items, they may remain on inventory records at original cost, leading to an overstatement of inventory value.

8. Correct Answer: C. Goods being dispatched but not invoiced, leading to loss of revenue.

- **Explanation:** Without matching every GDN to a sales invoice, there is a risk that goods could be dispatched but never invoiced, resulting in **unrecorded sales and loss of revenue**.

9. Correct Answer: C. Misappropriation of cash and unrecorded receipts.

- **Explanation:** Holding cash for several days before banking and requiring only one signature for cheques directly increases the vulnerability of cash to **misappropriation and unrecorded receipts**.

10. Correct Answer: D. Because IT systems often lack a paper audit trail and processing is invisible or electronic.

- **Explanation:** CAATs are essential in modern IT environments because electronic processing often means there is **no visible paper audit trail**, making traditional manual audit techniques difficult to apply.

Introduction to Substantive Procedures

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

FutureTech Innovations Ltd. reported a profit attributable to ordinary shareholders of ₦25,000,000 for the year ended 31 December 2023. The company had 50,000,000 ordinary shares outstanding throughout the year.

Calculate the Earnings per share (EPS) for **FutureTech Innovations Ltd.** for the year ended 31 December 2023. Which of the following is correct?

- **A. ₦2.00**

- B. ₦0.25
- C. ₦1.00
- D. ₦0.50

Question 2

Prime Energy Solutions Plc reported the following financial results for the year ended 31 December 2023:

Item	Amount (₦)
Profit before interest and tax	35,000,000
Interest charges	7,000,000
Taxation	8,000,000
Sales	150,000,000

Calculate the Interest Cover for **Prime Energy Solutions Plc** for the year ended 31 December 2023. Round your answer to two decimal places. Which of the following is correct?

- A. 2.50 times
- B. 5.00 times
- C. 3.33 times
- D. 4.17 times

Question 3

Retail Innovations Ltd. generated Sales of ₦120,000,000 and a Profit of ₦18,000,000 for the year ended 31 December 2023.

Calculate the Profit/Sales Ratio for **Retail Innovations Ltd.** for the year ended 31 December 2023. Round your answer to two decimal places. Which of the following is correct?

- A. 15.00%
- B. 18.00%
- C. 10.00%
- D. 12.00%

Question 4

An auditor is performing substantive procedures for **Capital Investments Ltd.** and is ensuring that the financial statements align with the detailed records maintained by the company.

Which mandatory substantive task involves ensuring that the financial statements are consistent with the underlying accounting records?

- **A.** Examining other adjustments made during financial statement preparation.
 - **B.** Examining material journal entries.
 - **C.** Performing extensive analytical procedures on all balance sheet accounts.
 - **D.** Agreeing or reconciling financial statements to the underlying accounting records.
-

Question 5

An auditor is explaining the role of substantive procedures to a junior audit assistant. The assistant is trying to understand why these procedures are necessary even after testing controls.

What is the primary purpose of performing substantive procedures in an audit?

- **A.** To evaluate the operating effectiveness of internal controls.
 - **B.** To provide recommendations for improving operational efficiency.
 - **C.** To detect material misstatements in the figures, presentations, and disclosures reported in financial statements.
 - **D.** To identify significant deficiencies in the client's accounting system.
-

Question 6

An auditor is verifying the cash balance reported by **Secure Bank Plc** at year-end. The primary objective is to confirm that the cash recorded actually exists.

Which financial statement assertion for account balances is the auditor primarily testing in this scenario?

- **A.** Rights and Obligations.
 - **B.** Valuation, Accuracy, and Allocation.
 - **C.** Completeness.
 - **D.** Existence.
-

Question 7

The audit engagement team for **Harmony Holdings Plc** is in the initial stages of planning the audit. They are also preparing for the final review of the financial statements before issuing the audit report.

At which stages of the audit are analytical procedures mandatory according to ISA 520?

- **A.** At the planning stage and the final review stage.
- **B.** Exclusively at the final review stage to form an overall conclusion.
- **C.** Only during the substantive testing phase to gather evidence.
- **D.** Only when internal controls are deemed ineffective.

Question 8

An auditor is reviewing the expense accounts of **CityScape Construction Ltd.** to ensure that all expenses are recorded in the proper accounts, distinguishing between administrative, selling, and production costs.

Which assertion for classes of transactions is the auditor primarily testing in this scenario?

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

Question 9

The financial statements of **MegaCorp Plc** show the following balances as at 31 December 2023:

Item	Amount (₦)
Share Capital	75,000,000
Reserves	25,000,000
Long-term Debt	50,000,000
Current Liabilities	30,000,000

Calculate the Gearing ratio for **MegaCorp Plc** as at 31 December 2023. Round your answer to two decimal places. Which of the following is correct?

- **A.** 50.00%
- **B.** 33.33%
- **C.** 66.67%
- **D.** 40.00%

Question 10

An audit team is using audit software to assist with the substantive testing of **DataStream Solutions Ltd.** The client's accounting system contains a large volume of transactions.

Which of the following is a typical functionality of audit software used for substantive testing?

- **A.** Developing new accounting policies for the client.
- **B.** Performing calculations of ratios and totalling balances for comparison with control accounts.
- **C.** Designing internal control systems for the client.
- **D.** Providing real-time monitoring of all system access attempts.

Answer Key and Explanations

1. Correct Answer: D. ₦0.50

- **Explanation:** $EPS = \text{Profit attributable to ordinary shareholders} / \text{Number of shares} = \text{₦}25,000,000 / 50,000,000 = \text{₦}0.50.$

2. Correct Answer: B. 5.00 times

- **Explanation:** $\text{Interest Cover} = \text{Profit before interest and tax} / \text{Interest charges} = \text{₦}35,000,000 / \text{₦}7,000,000 = 5.00 \text{ times}.$

3. Correct Answer: A. 15.00%

- **Explanation:** $\text{Profit/Sales Ratio} = (\text{Profit} / \text{Sales}) \times 100 = (\text{₦}18,000,000 / \text{₦}120,000,000) \times 100 = 15.00\%.$

4. Correct Answer: D. Agreeing or reconciling financial statements to the underlying accounting records.

- **Explanation:** One of the three specific substantive tasks that the auditor must always perform is **agreeing or reconciling financial statements to the underlying accounting records.**

5. Correct Answer: C. To detect material misstatements in the figures, presentations, and disclosures reported in financial statements.

- **Explanation:** Substantive procedures are audit activities performed to **detect material misstatements** in the figures, presentations, and disclosures reported in financial statements.

6. Correct Answer: D. Existence.

- **Explanation:** **Existence** for account balances ensures that assets, liabilities, and equity interests actually exist. For cash, this means confirming the physical cash or bank balances.

7. Correct Answer: A. At the planning stage and the final review stage.

- **Explanation:** ISA 520 requires analytical procedures to be performed at two mandatory stages: the **planning stage** (to identify risk) and the **final review stage** (to form an overall conclusion).

8. Correct Answer: A. Classification.

- **Explanation:** **Classification** for classes of transactions ensures that transactions are recorded in the proper accounts. This directly relates to distinguishing between different types of expenses.

9. Correct Answer: A. 50.00%

- **Explanation:** Gearing = (Long-term Debt / (Share Capital + Reserves)) × 100 = (₦50,000,000 / (₦75,000,000 + ₦25,000,000)) × 100 = **50.00%**.

10. Correct Answer: B. Performing calculations of ratios and totalling balances for comparison with control accounts.

- **Explanation:** Audit software functionalities include **calculations of ratios, totalling balances for comparison with control accounts**, aging receivables, and identifying transactions above specific thresholds.

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