1. Which of the following is **NOT** included in assurance services?  
   A. Environmental audits  
   B. Ethics audits  
   C. Interim audits  
   D. Software audits  
   E. Cost audits.

2. Which of the following is **NOT** one of the basic steps in performing the information technology audit?  
   A. Planning  
   B. Studying and evaluating controls  
   C. Testing and evaluating control  
   D. Pre-audit control  
   E. Follow-up.

3. Indications of weak risk management in an organization include all but **ONE** of the following.  
   A. Failure to monitor risks  
   B. Paucity of Information Technology risks manager  
   C. Lack of reliable performance measurement data  
   D. Inadequate information for monitoring processes  
   E. Failure to respond to signs of problems and visible threats.

4. In the audit of parastatals, corporations and ministries, **ONE** of the following is **NOT** relevant.  
   A. The act setting up the parastatals, corporations and ministries  
   B. Companies and Allied Matters Act CAP C.20 LFN 2004  
   C. Audit Act of 1956
5. There is a broad range of assurance and attestation services that an independent accountant can provide to clients. **ONE** of the following is NOT included.
   A. Agreed upon procedures of engagement
   B. Compliance audit
   C. Final audit
   D. Evaluation of information systems
   E. Operational audit.

6. Budget Monitoring and Price Intelligence Unit (BMPIU) operates in the following areas **EXCEPT**
   A. Regulatory function
   B. Certification function
   C. Assets acquisition function
   D. Monitoring function
   E. Training and advisory function.

7. Audit software comprises of computer programmes used by auditors to examine enterprise's computer files. They have many uses of which **ONE** of the following is **NOT** included.
   A. Selection of sample records from files e.g. selection from goods dispatched notes
   B. Data redrafting by checking again to ensure correctness
   C. Checking the computations and calculations again for correctness
   D. Comparing two or more different files e.g. comparing sales invoices with the sales ledger
   E. Checking application controls e.g. when testing in/out controls over completeness.

8. The incoming auditor is required to contact the predecessor auditor where one exists. The two of them are expected to discuss some issues. Which of the following is **NOT** included?
   A. The reason for the audit change
   B. The nature of any disagreement the predecessor had with the management
   C. The identification of important risk areas
D. Contents of disagreement letter issued to the predecessor
E. Arrangement for gaining access to the working papers of the prior years.

9. The Institute of Chartered Accountants of Nigeria (ICAN) identified five core values that accountants share and which are critical to the future viability and growth of the profession. The following is NOT ONE of the five.

A. Competence
B. Confidence
C. Objectivity
D. Understanding broad business issues
E. Integrity.

10. The parties that can bring an action for negligence against the auditors if the latter have given negligent misstatement through lack of care does not include ONE of the following

A. The company
B. Company's financial consultants
C. The shareholders of the company as a body
D. The bank as a key financier
E. Other lenders.

11. The function of the Auditor General for the Federation does not include ONE of the following

A. Detection and prevention of fraud
B. Being in attendance during public accounts committee session as an adviser
C. Control of loss of funds by ensuring that effective internal control are in place.
D. Serving as chairman of the Audit Alarm committee.
E. Presentation of income operating statement to the Auditor General for the Federation

12. An auditor using audit software would probably be least interested in ONE of the following fields in a computerized perpetual inventory file

A. Economic Order Quantity
B. Warehouse location
C. Date of last purchase
D. Quantity sold
E. Lead times.

13. Assignments carried out by auditors to enable them testify or give expert opinion in court, on fraudulent financial transaction or money laundering and quantify damages is known as

A. Statutory audit.
B. Compliance audit.
C. Attestation audit.
D. Forensic audit.
E. Assurance audit.

14. Which of the following is least involved in the audit of financial statements?

A. Nigerian Accounting Standard Board
B. The Institute of Chartered Accountants of Nigeria
C. Auditing exposure draft
D. Auditing guidelines/standards
E. Securities and Exchange Commission.

15. Independence and objectivity of an auditor cannot be impaired if he

A. has direct/indirect beneficial interest in any capacity in a client company
B. acts for any two opposing parties in respect of negotiation unless appointed as arbitrator
C. works for the client in an executive capacity
D. rejects appointment on grounds of technical incompetence
E. accepts fees, the amount of which is based on the success of an arrangement except where unavoidable.

16. The auditor should be put on enquiry in respect of fraud in payroll section if

A. wages and salaries are not paid on due date
B. finance and accounts staff are always working overtime
C. clerks on leave insist to participate in the cash payment of salaries
D. workers being paid cheque instead of cash
E. computerization of accounting system.
17. Which of the following should be reviewed by the auditor to gain reasonable assurance that additions to property, plant and equipment are not under/overstated?

A. Depreciation  
B. Accounts payable  
C. Repairs and maintenance  
D. Cash  
E. Stocks.

18. The corporate reports recommend that a Value Added Statement should contain all of the following EXCEPT

A. Turnover  
B. Bought-in materials and services  
C. Dividend and interest payable  
D. Auditors' remuneration  
E. Amount retained for reinvestment.

19. In expressing an opinion on the accounts of clients, the auditor does not accept responsibility for ONE of the following

A. The consistency of the application of accounting policies  
B. The reliability of opening balances  
C. The appropriateness of the comparative figures in the account  
D. The preparation of the financial statements  
E. Compliance with legal requirements.

20. The most important benefit of having an annual external audit is to

A. provide assurance to stakeholders that the financial statements are reliable.  
B. enable officers and directors to avoid personal responsibility for any misstatement in the financial statements.  
C. meet the requirements of government policies.  
D. provide assurance that any existing illegal acts will be brought to light.  
E. help the client company plan its tax liabilities.
PART II: SHORT ANSWER QUESTIONS (20 Marks)

1. The process of providing assurance about the reliability of any information provided by one party to another is known as ............

2. A threat to an organization that reduces the likelihood that it will achieve one or more of its objectives is .................

3. The risk that reflects the likelihood that a misstatement could originate somewhere in the financial statements is ................

4. Regulatory audit conducted in the public sector is otherwise known as ................

5. The gap between the role of an auditor as perceived by the auditor and what is required by the users of financial statements is ................

6. An engagement in which the accountant reports on issues that have come to his attention during the course of his review is called .............

7. What is the risk that a material misstatement in an assertion will not be prevented or detected on a timely basis by the entity's internal control?

8. A confirmation request to which the recipient responds only if the amount or information stated is incorrect is called ................

9. The audit that involves a systematic review of an organization or part of it in relation to an efficient and effective use of resources is called .................

10. Value for money audit is concerned with three Es: Economy, ........, ........ and ............

11. The Pension Reform Act, 2004 stipulates the accounting basis required for pension accounting, as the .......... basis

12. Section 7 of the Nigeria Re-insurance Act, 1977 states that every insurer shall reinsure with the corporation an amount equal to ............... 

13. Events which provide additional evidence relating to conditions existing at the balance sheet date are called .................
14. Services that improve the quality of information, or its context for decision makers is ..................

15. A situation where a party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decision is referred to in IAS 24 as .............

16. What is the type of risk which reflects that an auditor may not always detect a problem that has occurred?

17. A review carried out after an audit report is signed is ............... review.

18. In accordance with the prudential guidelines, loans and advances should be classified as ............... and .................

19. Fraudulent financial reporting is sometimes referred to as ..............

20. To which body of individuals should an auditor report material weaknesses in the accounting and internal control system identified during the audit?
SECTION B – ANSWER QUESTION ONE (CASE STUDY) AND ANY OTHER THREE (60 MARKS)

QUESTION 1 – CASE STUDY

Samaila & Company provides scientific services to a wide range of clients. Typical assignments range from testing food for illegal additives to providing forensic analysis on items used to commit crimes. The services are mainly offered to assist law enforcement officers.

The annual audit is nearly complete. As audit senior you have reported to the engagement partner that Samaila is having some financial difficulties. Income has fallen due to the adverse effect of two high-profile court cases, where Samaila’s services to assist the prosecution were found to be in error. Not only did this provide adverse publicity for Samaila, but a number of clients withdrew their contracts. A senior employee had left Samaila, stating that the lack of investment in new analysis machines was increasing the risk of incorrect analysis. His persistent request for replacement of the old machines had fallen on deaf ears over the years. Replacing the machines would require a cash outlay of ₦25.7 million and it takes six months to deliver.

A cashflow forecast prepared internally shows Samaila requiring significant additional cash within the next three months to maintain the current level of services. Samaila’s auditors have been asked to provide a negative assurance report on this forecast.

Required:

(a) How did Samaila & Company find itself in its present predicament?  
(3 Marks)

(b) What specific problem is Samaila & Company facing that relates to one of the major accounting concepts? Justify your answer.  
(4 Marks)

(c) What mitigating factors must the auditor consider before finally concluding that Samaila & Company would not survive the problem identified in (b) above.  
(4 Marks)
(d) In the context of the cashflow forecast, define the term ‘negative assurance’ and explain how this differs from the assurance provided by an audit report on statutory financial statements.  
(4 Marks)
(Total 15 Marks)

QUESTION 2
Information Technology has become part of every facets of life including financial activities and transactions. Its effect on financial transactions and audit have been tremendous.

You are required to:
(a) Briefly explain Information Technology audit and statutory audit.  
(8 Marks)
(b) State the objectives, differences and similarities of these audits.  
(7 Marks)
(Total 15 Marks)

QUESTION 3
Audit risk has been described as the risk that auditors may give an inappropriate opinion on the financial statement.

The level of control risk, (a component of audit risk) high or low determines the extent to which the auditor will believe there is the risk of material misstatement in specific financial statements assertions.

You are required to:
(a) Discuss the factors that determine the level of audit risk.  
(8 Marks)
(b) Where control risk exists, discuss the ways by which the auditor can adjust the audit based on the control risk assessments.  
(7 Marks)
(Total 15 Marks)

QUESTION 4
Auditing standards require auditors to carry out procedures designed to obtain sufficient and appropriate audit. In order to do this the auditor may require the services of a specialist.
In respect of specialists whose work may be relied upon by the auditor, you are required to:

(a) Describe a specialist and give **FOUR** examples of specialists. (6 Marks)

(b) State circumstances when the auditor will need the work of specialists. (6 Marks)

(c) How will an auditor determine the competence and objectivity of a specialist? (3 Marks)

(Total 15 Marks)

**QUESTION 5**

You are required to discuss the following **FIVE** elements of good quality control in a firm of Chartered Accountants:

(i) Independence
(ii) Personnel management
(iii) Acceptance and continuance of client
(iv) Engagement performance
(v) Monitoring (10 Marks)

(b) What is the emphasis on a system of quality control? (5 Marks)

(Total 15 Marks)

**QUESTION 6**

The scope of work of accountants is expanding rapidly in recent times. Auditing, Attestation and Assurance are some of these services.

You are required to state briefly what these services are about and explain their differences and similarities. (15 Marks)
SECTION A   Attempt All Questions

PART I   MULTIPLE-CHOICE QUESTIONS (20 Marks)

1. Control may NOT be achieved if as a result of a business combination, an entity gained power

   A. over more than one half of the voting rights of the other entity.
   B. to govern the financial policies of the other entity.
   C. to govern the operating policies of the other entity.
   D. to appoint or remove only a minority of the members of the board of directors or equivalent governing body of the other entity.
   E. to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other entity.

2. Which of the underlisted objectives is NOT for profit forecast engagement?

   A. To give an opinion whether the profit forecast complies with generally accepted accounting principles
   B. To give an opinion on the reasonableness on management’s assumptions and judgement on the profit forecast
   C. To give an opinion whether the profit forecast is presented on a basis consistent with the accounting practice normally adopted by the company
   D. To give an opinion whether the profit forecast has been prepared on the basis of management’s assumptions and judgement
   E. To give an opinion whether the profit forecast agrees with underlying records

3. Due diligence review includes the following aspects EXCEPT

   A. audit fee due diligence.
   B. financial due diligence.
   C. operation and IT due diligence.
   D. regulatory due diligence.
   E. environmental due diligence.
4. A present obligation that arises from past events but not recognised because the amount of the obligation cannot be measured with sufficient reliability is a
   A. contingent asset.
   B. contingent liability.
   C. profit forecast.
   D. contingent consideration.
   E. contingent liquidation.

5. Which of the following is NOT true of publishing an audit report electronically on the web?
   A. The directors should obtain the consent of the auditors to publish the audit report on the web.
   B. The auditors should always consent to the directors’ request.
   C. The auditor should review the process for deriving the electronic information from the financial statements.
   D. The auditors should check that the electronic copy is identical to the hard copy of the published accounts.
   E. The auditors should check to ensure that certain items have not been distorted or given greater emphasis in the new presentation.

6. According to Money Laundering (Prohibition) Act, 2004, a financial institution which fails to comply with drawing up a written report on suspicious transactions shall, on conviction, be liable to a fine of
   A. ₦1,000,000.
   B. not less than ₦1,000,000.
   C. not more than ₦1,000,000.
   D. not less than ₦250,000 and not more than ₦1,000,000.
   E. not less than ₦500,000 and not more than ₦1,000,000.

7. To arouse awareness among its employees, every financial institution shall perform all of the following EXCEPT
A. designate compliance officers at management level at its headquarters and at every branch and local office.
B. centralize all the information collected.
C. establish an internal audit unit to ensure compliance with the provisions of Money Laundering (Prohibition) Act.
D. carry out regular training programme for its employees.
E. establish an internal audit unit to ensure the effectiveness of the measures taken to enforce the provisions of the Act.

8. Social audits involve the following  EXCEPT

A. determining the amount of fine a client will pay for non-compliance with environmental laws and regulations.
B. identifying that all current social programmes are congruent with the mission of the company.
C. establishing whether the firm has a rationale for engaging in socially responsible activity.
D. assessing objectives and priorities related to social programmes.
E. evaluating company involvement in social programmes in the past, present and for the future.

9. Database software routines that are used to gather information about transactions or events that auditors deem to be material within the system are

A. extended audit modules.
B. embedded audit modules.
C. implanted audit modules.
D. expansive audit modules.
E. extensive audit modules.

10. The auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal controls either manually or through the use of Computer Assisted Audit Techniques (CAATs), is known as
A. re-appraisal.
B. re-evaluation.
C. re-performance.
D. restructure
E. recalculation.

11. Reports that are designed to create an audit trail for each on-line transaction which often document the sources of a transaction details (terminal, time and user) are known as

A. terminal logs.
B. events logs.
C. disclosure logs.
D. transaction logs.
E. user logs.

12. The audit procedures performed to obtain an understanding of the client’s business and its environment, including its internal control in assessing the risks of material misstatement at the financial statement and assertion levels are known as

A. risk-based assessments.
B. risk assessment procedures.
C. review procedures.
D. substantive procedures.
E. analytical procedures.

13. In the audit of groups, the group’s financial statements auditors consider the following matters EXCEPT

A. the group’s structure.
B. components’ business activities including the industry, regulatory, economic and political environments in which these activities take place.
C. whether the group’s engagement team will have unrestricted access to those charged with governance of the group.
D. a description of group wide controls.
E. the subsidiary auditors that are from the group auditor’s firm auditing the financial information of any of the subsidiaries.
14. The process of transforming programs and information into a form that cannot be understood without access to specific decoding algorithms is known as

A. crypton.
B. encryptograph.
C. encryptography.
D. encryption.
E. encryptation.

15. Which of the following is NOT a characteristic of batch process computer system?

A. The collection of like transactions that are sorted and processed sequentially against a master file
B. Keyboard input of transactions, followed by machine processing
C. The production of numerous print outs
D. The posting of a transaction as it occurs, to several files, without intermediate print outs
E. The collection of different transactions that are sorted and processed sequentially against a master file

16. In an audit sampling application, an auditor verifies

A. all the items in a balance sheet and makes a conclusion about the whole balance sheet.
B. less than 100 percent of the items in a balance sheet and formulates a conclusion about the whole balance sheet.
C. less than 100 percent of the items in a class of transactions for the purpose of becoming familiar with client’s accounting system.
D. the client’s unaudited financial statements when planning the audit.
E. the client’s financial statements when assigning the staff.

17. Which of the following is NOT usually performed when the auditors are carrying out a review of a client’s financial statements?

A. Analytical procedures applied to financial data
B. Inquiries about subsequent events
C. Confirmation of accounts receivable
D. Obtaining an understanding of accounting principles followed in the client’s industry
E. Confirmation of accounts payable

18. Which of the following elements in the audit risk model is a product of the auditors’ professional judgment?

A. Control risk
B. Analytical procedures risk
C. Test of detailed risk of incorrect acceptance
D. Process risk
E. Business risk

19. An auditor would most likely use generalized audit software to

A. make copies of a client’s data files for controlled reprocessing.
B. construct a parallel simulation to test the client’s computer control.
C. perform tests of a client’s hardware controls.
D. test the operative effectiveness of a client’s password access control.
E. perform tests of a client’s program control.

20. In a computerized information system, automated equipment controls are designed to

A. arrange data in a logical and sequential manner for processing purposes.
B. correct errors in the computer programs.
C. monitor and detect errors in source documents.
D. detect and control errors arising from use of equipment.
E. monitor and detect errors in application document.
PART II    SHORT-ANSWER QUESTIONS

1. An auditor who, at the request of the group engagement team, performs work on a financial information related to a component for the group account is a ..................

2. The purpose of COBIT is to provide management and business process owners with..............that helps in understanding and managing risk.

3. A peer review carried out before an audit report is signed is a ..............

4. The objective of the auditor is to implement ........... procedures at the engagement level that provide him/her with reasonable assurance that the audit complies with standards.

5. Audit risk is also known as ................

6. An environmental audit that is concerned with ensuring that hazardous materials are properly stored and disposed by tracing the life cycle of these materials from origin to disposal is called a ............... storage and ...............audit.

7. Audit matters of governance interest are those that arise from the audit of financial statements which, in the opinion of the auditor, are both ........ and ........ to those charged in governance in overseeing the financial reporting and disclosure process.

8. The specific procedures which a forensic auditor will follow depend on the specific ........ of the investigation.

9. An audit of financial statements which may be relied upon outside the jurisdiction of the audited entity for the purpose of significant lending, investment or regulatory decisions is..................

10. An assurance offered in the absence of any evidence arising to the contrary is called ............

11. A review carried out after an audit report is signed is referred to as.........

12. The practice of undercutting tender for audit engagements is called.......

13. A risk inherent to the company in its operation at all levels is called...........
14. In related services, the accountant’s use of accounting expertise, as opposed to auditing expertise, to collect, classify and summarise financial information is carried out in engagement

15. Internal controls in computerized systems are in two categories: (squares) and

16. In audit of Government accounts, the objectives are divided into two namely

17. One of the main input controls in the computer system is of transactions prior to data entry.

18. Computer applications are frequently implemented by personnel within user departments using packages

19. The risk that a material misstatement will not be prevented or detected on a timely basis by the client’s internal control is referred to as

20. The risk that the auditors will fail to detect the misstatement with their audit procedures is called

SECTION B ATTEMPT QUESTION 1 AND ANY OTHER THREE (60 MARKS)

QUESTION 1 CASE STUDY

Roamlade Associates Ltd sells electrical appliances. It began trading on Jan. 1, 2008. Its draft accounts for the year ended 31st December 2009 showed profit before tax of ₦3,000,000, total assets of ₦45,600,000 and a deferred taxation balance of ₦2,874,000

(i) No deferred tax adjustment has been made for the current period.

(ii) At the year end, Roamlade Associates Ltd has plant & equipment with a carrying amount of ₦15,600,000 and a tax base at that date of ₦7,200,000.

(iii) You are required to

(a) identify the issues an auditor should consider regarding this case. (8 Marks)

(b) state the procedures the auditor would undertake in respect of deferred taxation in the financial statements of Roamlade Associates Ltd (7 Marks)

(Total 15 Marks)
QUESTION 2

(a) State the major issues an auditor should consider in deciding whether or not to use interrogation software in a computerized accounting system. (10 Marks)

(b) Describe the relationship between audit risk and business risk. (5 Marks)

(Total 15 Marks)

QUESTION 3

In accordance with Audit Act, 1958, it is the function of the office of the Auditor-General for the Federation to audit the accounts of the Accounting Officers and all persons entrusted with the collection, receipt, custody, and issue or payment of the Federal Public moneys or with the receipt, collection, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the Federation and for the certification of the Annual Accounts of the Government.

In the light of the above, state the audit objectives of

(a) Treasury Accounts (5 Marks)
(b) Agency Accounts (5 Marks)
(c) Government Enterprises Accounts (5 Marks)

(Total 15 Marks)

QUESTION 4

Your firm is the auditor of Rupaz Group which has some of its subsidiaries being audited by other accounting firms. Part of your work is to ensure that inter-company transactions and balances are correctly treated in the group accounts.

Required:

(a) Why should inter-company balances within the group agree? (2 Marks)

(b) What are the consequences of inter-company balances not agreeing? (4 Marks)

(c) What audit work will you perform to ensure inter-company balances agree? (9 Marks)

(Total 15 Marks)
QUESTION 5

You are the audit manager responsible for the audit of Ediae Company. The draft financial statements for the year ended 31st December, 2009 showed turnover of N20 million, profit before tax of N850,000 and total assets of N16.2 million. The Board has announced plans to discontinue one of its production lines. The revenue from the production line amounted to N280,000 for the year to 31st December, 2009. A provision of N98,000 has been made at 31st December, 2009 for the compensation of redundant employees.

Required:
(a) Comment on the materiality of the issues raised above, namely: discontinuance and redundancy. (6 Marks)
(b) State the criteria an auditor may use to determine materiality. (6 Marks)
(c) What is the risk of using prescriptive rules as materiality criteria? (3 Marks)
(Total 15 Marks)

QUESTION 6

The auditor of a company who operates in a particular industry may sometimes have to consult specialists in that industry to enable him overcome his lack of technical knowledge and expertise in the industry.

(a) You are required to discuss the problems and responsibilities that an auditor faces when having to rely on such specialists. (10 Marks)
(b) Criteria are the standards or benchmarks used to evaluate or measure the subject matter of an assurance engagement. You are required to state the characteristics of suitable criteria in assurance engagement. (5 Marks)
(Total 15 Marks)
PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

1. An auditor applies the knowledge provided by the understanding of internal control to determine the nature, timing and extent of
   A. attribute test.
   B. compliance test.
   C. test of control.
   D. substantive test.
   E. walk-through test.

2. The “terms of reference” to be agreed by the Investigating Accountant with the client before commencement of work include the following EXCEPT
   A. the general scope of work to be covered.
   B. the purpose of the Investigation.
   C. timing within which the assignment will be carried out.
   D. the basis on which fees will be charged.
   E. the organisational structure and management of the entity to be investigated.

3. In accordance with the requirements of Insurance Act 2003 the fund of an insurance company should NOT be invested in
   A. loans on life policies within their surrender value.
   B. securities specified under the Trustee Investment Act.
   C. loans to small scale industries.
   D. loans to Building Societies approved by the Commission.
   E. loans on real property, machinery and other properties in Nigeria.

4. Analytical procedures used in planning an audit should focus on identifying
   A. areas that may represent specific risks relevant to the audit.
   B. material weaknesses in the internal control structure.
   C. the predictability of financial data from individual transactions.
   D. the various assertions that are embodied in the financial statement.
5. The procedure for Due Process Review include the following EXCEPT

A. codification of final report.
B. granting or denying Due process certification.
C. preliminary discussion between BMPIU and beneficiary ministries.
D. preparation of draft report.
E. organisation of “Right of Reply” meeting.

6. The ethical principles that govern auditors’ responsibilities include the following EXCEPT

A. professional competence.
B. integrity.
C. objectivity.
D. consistency.
E. independence.

7. One of the following is NOT a technique for value for Money Audit

A. Management and Systems Review
B. Effectiveness Review
C. Review of Management Policies and Mission
D. Efficiency Assessment
E. Analysis of Planning and Control Processes.

8. One of the following is NOT included in the contents of the accountants report in a prospectus of a company wishing to offer its shares to the public.

A. Balance sheet of the company at end of the last accounting period reported upon
B. Details of compliance with ICPC rules and regulations
C. Details of the valuation of all quoted investments
D. Details of any material transactions between the company and its promoters
E. Particulars of floatation cost and preliminary expenses
9. In circumstances where restrictions that fundamentally limit the scope of the audit are imposed by the client, the auditor should issue which of the following opinions?
   A. Emphasis of the matter
   B. Subject to
   C. Disclaimer
   D. Adverse
   E. Except for

10. Which ONE of the following activities does NOT fall within “Social Audit”? Consideration for the
    A. welfare of employees
    B. welfare of investors
    C. cause of inconvenience to the society
    D. appropriateness of an entity’s advert to the society
    E. review of an entity’s accounting and internal control system.

11. One of the elements of the expectation gap where users of financial statements may not know to whom the auditor is legally responsible to is ............gap.
    A. performance
    B. standard
    C. liability
    D. differential
    E. statutory

12. Which of the following is a post balance sheet non-adjustment event?
    A. Dividends receivable from subsidiary and associated companies
    B. Receipt of information relating to the rates of taxation
    C. Losses of assets either by fire or flood
    D. Determination of the purchase price or proceeds of sale of assets purchased or sold before the year end
    E. The insolvency of a debtor

13. Which of the following may NOT be relevant to the reporting accountant when reviewing the profit forecast of a public limited company?
    A. The nature and background of the client’s business
    B. The assumptions made by the company for reasonableness
    C. Procedures adopted by the company in preparing the profit forecast
14. Audit working papers are checked by more experienced audit staff during the course of the audit. This is also known as

A. Peer Review.
B. Technical Review.
C. Hot Review.
D. Cold Review.
E. Managers’ Review.

15. The auditors of financial institutions may **NOT** require **ONE** of the following statutory legislations.

A. Central Bank of Nigeria Act
B. Nigeria Deposit Insurance Corporation Act
C. Companies and Allied Matters Act
D. Federal Deposit Savings Deposit Act
E. Banks and other Financial Institutions Act

16. In the audit of banks, which **ONE** of these is least relevant to the auditors?

A. Minimum capital ratio
B. Minimum holding of securities/fixed assets
C. Minimum paid-up share capital requirements
D. Returns to be submitted to the CBN on regular basis
E. Minimum holding of cash reserves, and other specified liquid assets

17. Which of the following will **NOT** qualify to be addressed as an expert or a specialist for the purpose of auditing?

A. Lawyers
B. Treasurers
C. Stockbrokers
D. Geologists
E. Valuers

18. A report to management containing the auditors’ recommendation for correcting deficiencies disclosed by the auditor’s consideration of internal control is called

A. Recommendation Letter.
B. Lawyer’s Letter.
C. Representation Letter.
D. Management Letter.
E. Circularisation Letter.

19. A situation where the balance sheet is presented to show a state of affairs that is considered buoyant than the actual position of the enterprise is described as

A. Forgery.
B. Teeming and Lading.
C. Window Dressing.
D. Falsification.
E. Manipulation.

20. An occurrence of ONE of these events may cause a floating charge to crystallise.

A. Issuing of a debenture stock
B. Appointment of a director
C. Appointment of an external auditor
D. Appointment of a receiver
E. Issuing of ordinary shares.

PART II: SHORT ANSWER QUESTIONS (20 Marks)

1. The type of internal control system that acts as a guide to management for planning and controlling of income and expenditure so that maximum productivity is achieved is called............................................

2. Those matters which occur between the balance sheet date and the date on which the financial statements are approved by the board of directors are known as..............................................

3. The TWO basic types of an assurance engagement are......................... and ..........................................

4. In accordance with the Code of Best Practices, the Chairman of Audit Committee should be a .........................director who is qualified to serve in the Committee.
5. A type of substantive test which involves computation of ratio, studying of trends and making use of statistical skills to obtain audit evidence is known as........................................

6. The system of conducting business over the internet and therefore by electronic means instead of document based method is known as..................

7. The standard or benchmark used to assess or measure the subject matter in assurance engagement is known as..................................

8. An audit of financial statements which are or may be relied upon outside the audited entity’s home jurisdiction for purposes of significant lending investment or regulating decision is .........................

9. Professional service that enhances the quality of information or its context for decision makers is called.................................

10. The means by which a firm obtains a reasonable assurance that its expression of opinion always reflects observation of approved auditing standard, relevant statutory requirement and any professional standard set by the firm itself is.................................

11. A formal documentation of oral explanation given by the client to the auditor in order to have a proper understanding of the client’s business is called........................................

12. In order to have a proper background knowledge of the client’s operation and to identify the critical audit areas requiring special attention, the audit team leader needs to prepare............................

13. An audit which lays special emphasis on product processes, transportation matters materials used, waste disposal or product cycling is......................

14. The use of external specialists/organisations to perform certain functions which would have otherwise been done by the organisation itself is ..........................

15. In accordance with section 326 of the Companies & Allied Matter Act, 2004, an accountant may be appointed by .........................to investigate a company in order to determine the true ownership of the company.

16. The report of the reporting accountants on the prospectus shall not be valid unless a statement is made that they have given and have not withdrawn their .........................appears in the prospectus.
17. The Code of Ethics of the International Federation of Accountants (IFAC) requires both independence of …………………and independence in …………………from accountants.

18. The rules and procedures by which business corporations are directed and controlled and providing structures through which the company’s objectives are achieved are embedded in………………….

19. Subject to confirmation by the Senate, the Auditor-General for the Federation is appointed by the President on the recommendation of ……………

20. Due Process Office in the Presidency is also known as………………

SECTION B: ANSWER QUESTION 1 AND ANY OTHER THREE (60 MARKS)

QUESTION 1 CASE STUDY

Labanjog Plc is an independent marketing company, dealing with variety of merchandise for Nigerian consumers and has some connections with international businesses in Europe and Asia.

Labanjog Plc has recently established an “Audit Committee”, the members of which are very concerned about meeting corporate governance “best practice”, particularly since they have just been listed on the Nigerian Stock Exchange.

Being the internal auditor with Labanjog Plc, you have been asked to conduct a review of how well the company is meeting relevant Corporate Governance requirements.

Required

(a) List SIX key requirements to be met by Labanjog Plc to achieve effective Corporate Governance? (5 Marks)

(b) What is the duty of internal audit in achieving corporate governance compliance? (5 Marks)

(c) What is the role of Audit Committee in relation to Corporate Governance? (5 Marks)

(Total 15 Marks)

QUESTION 2

One of the techniques used by the auditor in arriving at his final audit opinion is analytical review. Preliminary analytical procedures are often performed on accounting ratios.

Required

Explain the possible reasons for the following changes found at the planning stage of the audit:
(a) an increase in capital gearing (3 Marks)
(b) an increase in dividend cover (3 Marks)
(c) an increase in the current ratio (3 Marks)
(d) a decrease in the gross profit margin (3 Marks)
(e) an increase in the inventory holding period (3 Marks)

**Total 15 Marks**

**QUESTION 3**

The Auditor-General for The Federation reports to the National Assembly on Public Sector Accounts audited by him.

**Required:**

(a) What is Public Accounts Committee (3 Marks)
(b) List the functions of the Public Accounts Committee (6 Marks)
(c) State the constraints against the effective performance of Public Accounts Committee (6 Marks)

**Total 15 Marks**

**QUESTION 4**

Where a profit forecast is included in the Prospectus, it is mandatory that it has to be accompanied by an Accountant’s Report.

**Required:**

(a) Enumerate the responsibilities of the reporting accountant on profit forecast (5 Marks)
(b) In respect of profit forecast, state any FIVE matters the accountant should clear with the client before reviewing and issuing his report on the forecast (5 Marks)
(c) List any five parties to the issue of a Prospectus (5 Marks)

**Total 15 Marks**

**QUESTION 5**

The group accounts on which the primary auditor forms an opinion may include the results of subsidiaries not audited by him.

**Required:**

(a) What is the duty of the auditor in relation to financial statements of the subsidiary companies? (3 Marks)
(b) In discharging this duty, what matters should the auditor consider before placing reliance on the work of the secondary auditors? (8 Marks)
(c) In what circumstances would group accounts need not deal with the results of a subsidiary company? (4 Marks) (Total 15 Marks)

QUESTION 6

There may be situations where two or more accounting firms report jointly on a client’s set of financial statements.

Required:

(a) Explain FIVE circumstances that may warrant the need for joint auditors. (5 Marks)

(b) Discuss FIVE problems associated with joint audits. (10 Marks) (Total 15 Marks)
SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

Write only the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions.

1. The final decision of the courts about auditors’ liability was found to be wrongly reached in ONE of the following cases:
   
   A. Re: London General Bank (1895)
   B. Donogue v Stevenson (1932)
   C. Candler v Crane Xmas (1951)
   D. Hedley Byrne v Heller and Partners (1963)
   E. Re: Thomas Gerrard and Sons (1967).

2. In conducting the audit of an insurance company, to which ONE of the following should the auditor pay special attention?
   
   A. Provision for depreciation
   B. Provision for unearned interest
   C. Provision for loan losses
   D. Provision for outstanding claims
   E. Provision for general reserve.

3. Which ONE of the following is a type of audit included in the scope of responsibilities of the Auditor-General for the Federation?
   
   A. Regulatory audit
   B. Computer audit
   C. Operational audit
   D. Programme audit
   E. Management audit
4. Threats to objectivity include the following **EXCEPT**
   
   A. Familiarity threat
   B. Self-regulatory threat
   C. Intimidation threat
   D. Advocacy threat
   E. Self-interest threat.

5. Auditors can disclose the client’s confidential information for the following reasons **EXCEPT**
   
   A. Auditors know client has committed terrorist offence
   B. Information is required by the auditor for another client
   C. Auditors suspect client has committed treason
   D. There is public duty to disclose
   E. Disclosure is needed to protect auditor’s own interest.

6. Which ONE of these services may not be appropriate for an audit firm?
   
   A. Advising clients on corporate structures, recruitment and other human capital needs
   B. Giving necessary legal advice on tax returns including negotiation with the tax authorities
   C. Acting as a receiver of the company’s operations on behalf of debenture holders and creditors of the company
   D. Making detailed enquiries and gathering all necessary information to meet the clients’ specific needs
   E. Advising clients on how best the business can be run and controlled including issues of accountability and management.

7. The auditors’ report should be dated on the day that the
   
   A. Report is delivered to the client
   B. Field work is completed
   C. Fiscal period under which the audit ends
   D. Review of the working papers is completed
   E. Board meeting approves the accounts.
8. In accordance with SAS 4, which ONE of the following methods is appropriate in valuation of stock?

A. Latest in, first out  
B. Base stock  
C. Specific identification  
D. Latest purchase price  
E. Weighted average.

9. The audit of financial statements in Nigeria is not affected by ONE of the following:

A. Securities and Exchange Commission  
B. Auditing Standards  
C. Nigerian Accounting Standard Board  
D. The Institute of Chartered Accountants of Nigeria  
E. Auditing Exposure Drafts.

10. Which ONE of the following may not necessarily be a symptom of a going concern problem?

A. Redemption of debentures  
B. Dividends in arrears  
C. Existence of long overdue debtors  
D. Heavy dependence on short-term funds for long-term needs  
E. Excessive reliance on a supplier or customer

11. The accountants’ report in a prospectus may not contain ONE of the following items:

A. Summarised balance sheet of the company for the last five years  
B. Evaluation of quoted and unquoted investments  
C. Principal accounting policies  
D. Movement in share premium account  
E. Particulars of preliminary expenses.
12. The method most appropriate for a company to change from manual-based system to computer-based accounting system is

A. Direct change over
B. Parallel change over
C. Vertical change over
D. Phased change over
E. Pilot change over.

13. Which ONE of the following does NOT affect public sector audit?

A. Financial regulation
B. The 1999 Constitution of Federal Republic of Nigeria (as amended)
C. Statement of Accounting Standard
D. Treasury and circular letters
E. Finance Act.

14. Which ONE of the following sanctions may NOT be imposed by The Institute of Chartered Accountants of Nigeria on its members for misconduct?

A. Reprimand
B. Suspension from membership
C. Expulsion from membership
D. Sealing off practice office
E. Payment of costs.

15. Quality control in audit is maintained by professional accountancy bodies through all the following EXCEPT

A. Publishing of auditing standards
B. Publishing of accounting standards
C. Encouraging members to be computer literate
D. Publishing code of conduct for members
E. Establishment of public practice sector.
16. Which **ONE** of the following is **NOT** an example of Computer Assisted Audit Technique?
   A. Read only memory
   B. System control and review file
   C. Integrated test facilities
   D. Snapshot
   E. Mapping.

17. The computation of ratios and trends and the use of statistical formula to obtain audit evidence is
   A. Hot review
   B. Audit sampling
   C. Substantive test
   D. Analytical review
   E. Audit review.

18. Which **ONE** of the following is **NOT** an example of assurance engagement?
   A. Reports for lenders and other investors
   B. Reports on environmental performance
   C. Reports and statement of accounting policies
   D. Reports on corporate social responsibility performance
   E. A private audit.

19. All the following are necessary when the auditor is considering whether to rely on the work of a specialist **EXCEPT**
   A. The independence of the specialist
   B. The experience of the specialist
   C. The fees charged by the specialist
   D. The specialist relationship with the client
   E. Compatibility of the data in preparing the financial statement.

20. To obtain an understanding of the internal control system, which **ONE** of the following computer documentations can assist the auditor?
   A. System narrative
   B. System flowchart
   C. System counts
   D. Record layout
   E. Programme listing.
PART II: SHORT-ANSWER QUESTIONS

(20 Marks)

Write the answer that best completes each of the following questions/statements.

1. The application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable the auditors obtain and evaluate evidence is known as..........................

2. Any logical process used by a system analyst to develop an information system including requirements, validation, training and user-ownership is referred to as..........................

3. The responsibility for the conduct of the audit and expressing an opinion on the financial statements in a firm of Chartered Accountants rests with the..........

4. A retired partner in a firm now managed by other members but retained by the members for the sake of continuity is known as a..........................

5. The power of The Institute of Chartered Accountants of Nigeria to initiate disciplinary action against any member who has run foul of ethical standards rests with.........................

6. When the auditor sets up his own records and processes them at the same time as the client processing data, he is using a technique in computer known as....................

7. In principle, the auditor does not owe a duty of care to a third party. However, it has been held in decided cases that the auditor owes a third party a duty of care under the.................................

8. The Auditor-General for a State is appointed by the Governor on the recommendation of.....................subject to the confirmation of the State House of Assembly

9. A letter written by the secondary auditor to the primary auditor explaining all the procedures used in carrying out the audit of the subsidiary company is known as...........................
10. The disclosure of information on the effect that the operation of an entity has on the natural environment can be found in.................section of the annual reports and accounts.

11. Statements by professional accountancy bodies stating the basic procedures to be adopted when conducting an audit assignment are called....................

12. A person or firm possessing special skills, knowledge and experience in a particular field other than accounting, which may be used by the auditor as basis to form an opinion on the financial statements is referred to as ......................

13. Issues on Corporate Governance in Nigeria are listed in the .................

14. A situation where public expectation is reasonable but the auditor’s conduct does not meet the required standards is known as ......................

15. The use of the same accounting principles from year to year so that the successive financial statements issued by a business entity will be comparable is known as.........................

16. A member of The Institute of Chartered Accountants of Nigeria who has been indicted by the Accountants’ Disciplinary Tribunal has a right of appeal to the ......................

17. The inability of a company to meet its financial obligations as and when due is called......................

18. The audit procedures that ensure that transactions are recorded in the period to which they belong are known as.........................

19. Limitation in the scope of work may give rise to.......... in an auditor’s report.

20. An assignment in which the practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter is.........................
SECTION B: ANSWER QUESTION 1 AND ANY OTHER THREE  (60 MARKS)

QUESTION 1 - CASE STUDY

Fela Idaewor is auditor to Matty Co. Ltd, a fast growing retail business in Lekki. While she had previously participated in this engagement, this is her first year as the audit manager. As she planned the engagement, she identified a number of risk factors such as strong interest in maintaining the company’s earnings and share price, unrealistic forecasts and high dependence on debt financing for expansion. There was strong indication that fraud might have been committed by top management.

Required

(a) What should Idaewor do about the possibility of fraud at the planning stage?  
   (7 Marks)

(b) What is the required documentation for identifying risk factors?  
   (5 Marks)

(c) If Idaewor has evidence which suggests that fraud exists, what would be her communication responsibilities to management?  
   (3 Marks)

   (Total 15 Marks)

QUESTION 2

Sarbanes-Oxley Act of 2002 which was enacted in the United States as an attempt to guide and regulate the work of accountants and auditors in that country, has raised issues about the culture of self-regulation in the accounting profession.

You are required to

(a) State the reason for its enactment and issues covered therein.  
   (2 Marks)

(b) State its main provisions that relate to corporate accountability.  
   (8 Marks)

(c) List the merits of this Act.  
   (5 Marks)

   (Total 15 Marks)
QUESTION 3

(a) Outline the main objective of corporate governance. (3 Marks)

(b) One of the tools of corporate governance in Nigeria is the establishment of the Audit Committee under Section 359 (6) of Companies and Allied Matters Act Cap C20 LFN, 2004. What are the composition and functions of an Audit Committee? (6 Marks)

(c) State SIX instances when the corporate governance of a public company may be compromised by the Board of Directors. (6 Marks)

(Total 15 Marks)

QUESTION 4

The role of auditors is commonly misconceived. Many people argue that the auditor is expected to detect all frauds and irregularities in a client’s business. Others believe that the auditor should act more like a court of justice where truth is defended. In fact, the auditor’s responsibilities, powers and duties are defined by statutes, ethics and auditing standards.

Required:

(a) What are the provisions available in the Companies and Allied Matters Act Cap C20 LFN, 2004 which seek to reduce the communication gap between the auditor and the shareholders? (7 Marks)

(b) Explain EIGHT controls available to address the problem of performance gap. (8 Marks)

(Total 15 Marks)

QUESTION 5

When a company is having going concern problems, the symptoms which such company will show, can be categorised into financial and non-financial symptoms.
SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

Write only the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions.

1. When a client commits an illegal act, which ONE of the following steps should an auditor take as part of his professional expectations?
   
   A. Assess the risk of material misstatement of the financial statements due to illegal act and report on them
   B. Consider the illegal act from the direction of the reliability of management representations
   C. Take responsibility to detect the illegal act by the client and report on them after alerting the law enforcement agents
   D. Advise the client to consult a legal adviser about questions of law on illegal acts as it affects the financial statements.
   E. Rely on any contingent monetary effects and loss contingencies resulting from the illegal acts.

2. The Treasury Inspectorate Department in the office of the Accountant-General of the Federation is responsible for oversight functions of the treasury on accounting and financial control matters.

Which ONE of the following matters may NOT give rise to an investigation?
3. Which ONE of the following actions is an appropriate strategy by organisations wishing to improve the public’s perception of their Financial Reporting?

A. Requiring the Head of Internal Audit to report all significant observations of illegal activity to the Chief Executive Officer
B. Ensuring the maintenance of independence by keeping external and internal audit work separated
C. Adopting all the recommendations of external auditors and synchronizing them with that of internal auditors
D. Establishing an audit committee
E. Making internal auditing a grounded profession and a stepping stone to managerial positions

4. Information Technology Controls (or IT Controls) are specific activities to ensure that business activities are met and are performed by persons or systems designed for such purposes.

Sample steps for a Quantitative Risk Analysis do NOT include one of the following

A. Assign values to Assets to determine value
B. Perform a Threat Analysis
C. Estimate potential loss per threat
D. Increase, Transfer or Accept the risk
E. Derive the overall loss potential per threat

5. Audit software maintainability is very crucial for an auditor if he is to effectively perform in a computerised environment. Which ONE of the following attributes BEST relates to computer software maintainability?

A. Acceptance of compatibility
B. Resources needed to make specified modification
C. Efforts needed to use the system applications
D. Relationships between software performance and the resources needed
E. Fulfilment of user needs

6. International Standard on Auditing (ISA 240) requires that an auditor must approach his work with an attitude of professional scepticism. This means therefore that auditors should be thorough when carrying out their jobs and should respond to one of the following:

A. Blood hounding the staff including top management
B. Be suspicious that the Accounts may not comply with regulatory requirements
C. Be suspicious that there could be unintentional error or fraud
D. Be suspicious that the Accounts may contain one or more deliberate errors or fraud
E. Display a high sense of professionalism or care in carrying out his assignments.

7. The Reporting Accountant should not rush to accept any appointment but rather carefully consider whether there are matters which might make it difficult or impossible for him to report on the profit forecast.

Which ONE of these options is relevant in this scenario?

A. The nature of the company’s business which is legal and very crucial to the economy
B. Sufficient time allowed for obtaining and assessing required information
C. Good reputation of the promoters of the company
D. Unreliable Accounting and Costing Methods
E. Reliable methods of forecasting

8. Accountants who are in employment or in practice sometimes are required to carry out fraud investigations. Which ONE of the objectives below is NOT for fraud investigations?

F. To ascertain the department affected
B. To know those who are behind the fraud or the extent of individuals involvement
C. To determine the existence of the fraud
D. To ascertain the prosecutors of the fraud
E. To know and ascertain the amount involved

9. In the case of a member who is nominated to serve on the audit committee, by how many days before the Annual General meeting (AGM), must the nomination be submitted to the company secretary?

A. 10 days  
B. 14 days  
C. 21 days  
D. 30 days  
E. 40 days

10. Statement No7 in ICAN’s Professional Conduct for Members makes extensive provisions for fees to be charged by Chartered Accountants.

Which ONE of the following is NOT consistent with this provision?

A. Chartered Accountants are entitled to charge for their services by agreeing with the client or make reference to the custom of the profession.
B. In case where there is no agreement on the basis of fees, a member of the Institute should charge a fee which is fair and reasonable considering expertise, time expended, degree of risks and importance of the work.
C. Prior to the commencement of the engagement, a member should inform the client in writing as regards fee quotation and estimates.
D. Quoting a fee that is lower than that of another member is absolutely prohibited and should be regarded as unethical.
E. Fees should not be charged on a percentage, contingent or similar basis in reporting of audit work, reporting assignment or similar non-audit assignments.

11. Which ONE of the following should be regarded as shortcomings of a joint audit engagement?

A. Audit fees are shared in an agreed ratio
B. It allows for exchange of ideas and technique
C. Firms may suffer for another’s negligence
D. It may not improve auditors’ skill
E. Audit risk may be minimised.

12. Right from the planning stage through the actual performance of the assignment, the auditor is required to perform an assessment of the risk of fraud in the entity. Which One of the following controls CANNOT address the above scenario?

A. Control over related party transactions
B. Control over journal entries and adjustments made in the period and financial reporting process
C. Control over management and operation expenses
D. Control relating to management’s significant estimates
E. Control that mitigate incentive or pressure on management to falsify or inappropriately manage financial results

13. Qualified auditor’s report has been a subject of great controversy among the practitioners and the general public in recent times. As an auditor, which one of the following guidelines should NOT be observed in an audit report?

A. The qualification must be concise and clear
B. The qualification should be specific as to the items and facts, and as far as possible the amount involved
C. It should make clear the effect on the financial statements as a whole
D. It should express the auditor’s opinion without being misunderstood
E. It should be indirect and may be unambiguous.

14. In comparing auditing standards in Nigeria with relevant International Standards on Auditing (ISA) issued by International Federation of Accountants (IFAC), it has been observed that some shortcomings of local standards have led to one of the following:

A. Multinational audit firms do not adopt these standards
B. Multinational corporations’ collapse are more frequent than small companies
C. Local Chief Executive Officers (CEOs) were becoming very corrupt.
D. Weak or faulty financial reporting
15. When auditing a financial statement, which ONE of the following areas is an Auditor required to perform entity level fraud related risk control assessment?

A. Bank circularisation  
B. Audit Committee  
C. Non-executive Directors  
D. Due diligence reports  
E. Related party transactions

16. During the audit of computer based financial statements, Test Data or Test Pack can be used for the following, EXCEPT to

A. confirm the program used  
B. verify the effectiveness of program controls  
C. confirm that exception reports are correctly produced  
D. verify the existence of program controls  
E. sort transactions and account balances in a desired sequence for audit purpose

17. The benefits derivable from audit risk assessment include the following EXCEPT

A. Saves audit costs and fees  
B. Reduces the possibility of under or over auditing  
C. Results in a more effective and efficient audit work  
D. Facilitates the use of sampling  
E. Reduces time available for obtaining audit evidence

18. Which of the following is NOT a step to be taken by the Auditor in order to minimise professional negligence?

A. An effective audit planning so as to identify critical audit areas  
B. Compilation of good quality audit working papers
C. Engagement of experienced and qualified professionals on assignments
D. Effective audit risk assessment
E. Avoidance of assignments with low audit fees

19. The responsibility for the preparation of profit forecast that is to be included in the prospectus of a company seeking quotation rests with

A. The shareholders of the company
B. External Auditor of the company
C. The Reporting Accountant of the company
D. Internal Auditor of the company
E. The Directors of the company

20. Companies and Allied Matters Act, Cap C20 LFN 2004, S.369 (2) provides that an Officer of a company commits an offence if he knowingly or recklessly makes to a company’s auditors, a statement (whether written or oral) which is

A. An extract of the minutes of the Board meeting
B. An extract of the minutes of management meeting
C. Misleading, false or deceptive in a material particular
D. In accordance with underlying accounting records
E. Compliant with the Statements of Accounting Standards
PART II: SHORT-ANSWER QUESTIONS

(20 MARKS)

Write the answer that best completes each of the following questions/statements:

1. In an IT environment, the elimination of redundant data is known as...............

2. Auditors must recognise that the preparation of financial statements requires management to make significant accounting .................and..................as well as to determine from among several alternatives, accounting principles and methods most appropriate within the framework of Generally Accepted Accounting Standards (GAAS).

3. Professional ethics regulates the way and manner each member relates to other members on one hand and to the .....................on the other hand, both from the moral perspective.

4. Forensic Accounting encompasses both.............and Investigative Accounting.

5. The Auditor–General for the Federation is appointed by the President on the recommendation of the .....................subject to confirmation by the Senate.

6. The reserves as required by the law to be maintained by insurance companies to cover fluctuations in securities and variations in statistical estimates is known as..........................

7. If in liquidation, the proceeds of the debenture-holders securities as realised are insufficient to pay off the debentures, they will rank as....................creditors for the balance still due to them.

8. The intentional misrepresentations of financial information by one or more individuals among management, employees, third parties or even directors of companies is called...................

9. The susceptibility of an Account Balance to error where there are no related control procedures is called..............

10. During the course of the audit of a soap manufacturing company, a material item for environmental costs will be disclosed as.....................item and given full explanation in the Notes to the Accounts.
11. The descriptive phase of all financing arrangement where strict recognition of the legal aspects of the individual contract results in the exclusion of liabilities and associated assets from the balance sheet is known as ......................

12. An audit of financial statements which may be relied upon outside the jurisdiction of the audited entity for the purpose of significant lending investment or regulatory decision is referred to as .....................audit.

13. From which document/source would the auditors obtain evidence of the approval of transfers to or from reserves? ...........................................

14. The rules and regulations guiding the conduct of a charitable organization is contained in a document known as ..............................

15. A terminology used in systems engineering and software engineering that refers to the process of creating or altering systems, models and methodologies is known as ..............................

16. The Public Sector Audit, conducted with a view to ensuring that expenditure has been incurred on approved services and in accordance with the enabling statutory provisional expenditure is called ..............................

17. Computer Assisted Audit Technique which the Auditor uses to examine an enterprise’s computer files is called ..............................

18. The law allows the auditor to give a positive or negative opinion on the financial statements prepared by the management and he cannot be sued for defamation. That protection given by law is called ..............................

19. An active approach by Auditors in concentrating on proving input data as well as thorough examination of the processing procedures to ascertain that unusual conditions in the input cannot cause misprocessing is known as ..............................

20. The Auditor of a Limited Liability company needs to be familiar with all the internal rules and regulations guiding the operations of the company before carrying out his audit work. The document that contains these rules is known as ..............................

SECTION B: ATTEMPT QUESTION ONE AND ANY OTHER THREE
QUESTION 1
Gold Stars Investments sells refrigerators and gas cookers in ten retail outlets. Sales are made to customers on cash and cheque basis. All items purchased are delivered to the customers using the company’s delivery vans where the items cannot be transported by the customers using their own vehicles.

The Directors of the company indicated that the company had gone through a difficult year but are pleased to present some acceptable results to the members.

Provided below is an extract of the financial statements.

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<td>Cost of Sales</td>
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<td>Gross Profit</td>
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<td>Operating Expenses</td>
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<td>Administration</td>
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<td>Selling and Distribution</td>
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<td>(1,378)</td>
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<td>Cash and Bank Balances</td>
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Required:

With reference to International Standards on Auditing (ISA 520) on Analytical Procedure, explain

(a) The term Analytical Procedure. (2 Marks)
(b) TWO uses of Analytical Procedures. (3 Marks)
(c) TWO circumstances in an audit when analytical procedures can be used. (3 Marks)
(d) Possible causes for unusual changes in the Profit and Loss Account (7 Marks)

TOTAL 15 MARKS

QUESTION 2
You have been appointed Auditor of a company whose accounting transactions are processed using computer. You have decided to use Computer-Assisted Audit techniques (CAAT) to generate evidence for the audit assignment.

Required:

(a) State FOUR advantages and THREE disadvantages of using test data in compliance testing of application controls. (7 Marks)

(b) List FOUR activities for which audit software may be used to perform substantive tests by the auditor. (4 Marks)

(c) List TWO advantages and TWO disadvantages of the use of audit software. (4 Marks)

(Total 15 Marks)

QUESTION 3

The Internal Controls applicable to insurance operations will be different from those for trading or manufacturing companies only in respect of peculiar transactions and processes such as quotations, insurance covers, claims and commissions

Required:

(a) List FOUR Internal Control measures on insurance claims and FOUR Internal Control measures on insurance cover. (8 Marks)

(b) List SEVEN admissible assets of an insurance company for the computation of solvency margin. (7 Marks)

(Total 15 Marks)

QUESTION 4
In the audit of companies using electronic commerce, the knowledge of the business is crucial in determining the most effective and efficient audit strategy.

Required:

(a) Identify and explain FIVE challenges an auditor may face in carrying out the audit of e-Commerce transactions. (10 Marks)

(b) State FIVE security measures aimed at ensuring integrity of the client’s records. (5 Marks)

(Total 15 Marks)

QUESTION 5

The issue of corporate and audit failure have been a subject of discussion in many quarters particularly in the auditing profession. The investors, public, capital market and their regulators are also becoming sceptical about the credibility of some financial statements. All these have imposed challenges to the accountancy profession.

Required:

(a) Explain what is referred to as Audit Failure. (2 Marks)

(b) Outline THREE instances of Audit Failure using classical or recent examples. (3 Marks)

(c) Suggest FIVE ways in which the auditing profession can respond to the issues raised by Audit Failure. (10 Marks)

(Total 15 Marks)
PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL EXAMINATION I - NOVEMBER 2012
ADVANCED AUDIT AND ASSURANCE

Time allowed – 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

Write only the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions.

1. An auditor can disclose the client’s confidential information for the following reasons EXCEPT

A. Auditor suspects that the client has committed treason
B. When there is a public duty to disclose
C. Disclosure is needed to protect the auditor’s interest
D. When the client has committed an act of felony
E. When information is formally requested by another client

2. Which of the following is NOT an objective of profit forecast investigation on which an opinion can be given?

A. Whether or not the profit forecast complies with the Generally Accepted Accounting Principles
B. As to whether the profit forecast has been prepared on the basis of the existing organisation’s accounting policies
C. Whether or not the profit forecast has been prepared on the basis of management assumptions and judgement
D. On the reasonableness of the management assumptions and judgement of the profit forecast
E. As to whether the profit forecast agrees with the underlying records.
3. The responsibilities of the directors in relation to the accounting functions of the company fall under the following **EXCEPT**

A. Safe-guarding the company’s assets and preventing errors and fraud in the company  
B. Defining the concept of materiality and tolerable error as a guide to the auditor  
C. Ensuring that the company keeps proper accounting records as defined in the legislations  
D. Setting up internal control system in the company as a standard practice  
E. Preparing the financial statements to show the results of the company for the year and financial position as at year end.

4. The deficiencies of historical cost accounting during inflation **EXCLUDE** which of the following?

A. The Net Book Value of Fixed Assets is often substantially below their current value  
B. The statement of financial position figure of stock reflects prices ruling at the date of purchase or manufacture rather than those current at the year end.  
C. Charges made in arriving at the profit do not reflect the current value of assets, which result in overstated profit in real terms.  
D. If the historical cost accounting profit were distributed in full, the level of operations would have to be curtailed  
E. The understatement of profit and the overstatement of assets prevent meaningful calculations of profitability.

5. Regarding investigation in the public sector, the final report of the Board of Inquiry shall include

A. The number of memoranda received from the public  
B. A statement of the exact amount of loss that has been incurred  
C. Certification from the Due Process office  
D. Report of the Auditor-General for the Federation  
E. External Auditors’ opinion statement on the loss that occurred
6. Auditors that carry out transnational audit usually belong to multinational firms and as such are

A. Independent of the local laws and regulations
B. Not expected to operate under the professional rules of any particular country
C. Not accountable to any supervisory body
D. Expected to buy the shares of the multinational corporations to gain entry into the country
E. Operating subject to national laws and professional values in more than one country

7. In the audit of an insurance company carrying out life business, which of the following is NOT relevant?

A. Providing a general reserve which shall be equal to net liabilities on policies in force at the time of actuarial valuation and an additional amount equal to 25% of net premium for every year between actuarial valuation dates.
B. Providing a contingency reserve equal to 1% of gross premium or 10% of profit whichever is greater and which is accumulated until it attains the amount of minimum paid up capital
C. Providing a margin of solvency which shall not be less than 15% of the gross premium received, less re-insurance premium paid or 15% of the paid up capital whichever is higher
D. Separation of funds into Individual Life, Group Life, Health Insurance etc showing each class
E. Profit determination only by actuarial valuation of the liabilities and comparing this with available assets.

8. In a recent study involving different users of financial services in Nigeria, various types of unethical behaviour have been identified. Which of the following does NOT have general application in the industry?

A. Any act that does not follow the norms of a profession
B. Any act not in consonance with professional code of conduct
C. A conduct that is morally adjudged wrong, unbecoming and below expectation
D. Behaviour that is based on moral or pre-modial principles
E. Deviations from standard and known code of conduct guiding an operation.
9. Which of the statements listed below about IFRS is invalid?

A. Multinational should benefit from a number of cost savings when using IFRS
B. Companies that wish to reach a wider group of investors will find financial statements based on IFRS acceptable in all major markets
C. Using IFRS will make it easier, though more expensive, to have secondary listing in other countries of the world
D. Using the same accounting basis provides greater comparability between companies which will lead to more efficient investment
E. The original standard setter between (1973-2000) was International Accounting Standard Committee (IASC)

10. In order to review a payroll journal, the auditor is NOT likely to interface with which of the following ledger accounts?

A. Pay As You Earn
B. Pension
C. Staff loans
D. Current Assets
E. National Health Insurance

11. The impact of Due Process Review EXCLUDES

C. Recognition of competent contractors
D. Recognition and reinstatement of rightful contract winners
C. Elimination of middlemen in contract awards
D. Elimination of doubt in the ability of the contractor
E. Elimination of businessmen in contract awards

12. Which of the following is NOT an example of Revenue Related Fraud?

A. Accounting and documentary
B. Lifestyle of employees
C. Related party transactions
D. Management override of significant internal control activities
E. Sale of assets that is very similar to subsequent purchases at similar amounts.

13. The auditor should always date the audit report on a date

A. The financial statements were approved
B. After the directors have approved the financial statements
C. When the directors approved the audit work  
D. The audit assignment was completed  
E. The audit commenced.

14. According to ISA 320, the auditor is expected to treat information as IMMATERIAL if

A. Its omission could influence the economic decision of users based on the financial statement  
B. Its misstatement could alter the decision of stakeholders based on the financial statements  
C. Its omission is within the audit objective  
D. Its misstatement will make an audit objective to be defeated  
E. Its omission threatens the going concern of the organisation

15. While developing a risk-based audit program, the Information Technology Auditor most likely will focus on

A. Strategic controls  
B. Critical IT applications  
C. Operation control  
D. Business strategy  
E. Business process

16. The Letter of representation is normally signed by

A. Managing Director and Chairman of the Board  
B. Managing Director and Company Secretary  
C. Managing Director and Finance Director  
D. Chairman of the Board and Finance Director  
E. Chairman of Audit Committee and the Managing Director

17. Which of the following actions is inappropriate to a material fraud detected during an audit of a banking institution?

A. Discuss the matter with at least one level of management above the perpetrators  
B. Obtain further evidence  
C. Mention it in the audit report  
D. Suggest that the client consults with legal counsel about question of law  
E. Report the matter directly to the police.
18. The following categories of debtors may be declared bankrupt (according to Bankruptcy Law in Nigeria) **EXCEPT**

A. A debtor owing a liquidated sum of at least ₦2,000 (Two Thousand Naira only).
B. A debtor who has committed an act of bankruptcy within 3 months before presentation of bankruptcy petition.
C. Any debtor domiciled in Nigeria or who has carried on business in Nigeria by means of an agent or a manager
D. A debtor that makes any conveyance or transfer of his property or any part thereof if he were adjudged bankrupt.
E. A debtor who transacts business in Nigeria and is able to meet his obligation as at when they fall due.

19. Which of the following is the most appropriate objective of audit review?

A. Frauds and errors do not occur in an audit engagement
B. The audit is completed early for the report to be used
C. The audit is performed with the highest standard of quality
D. To ensure that appropriate bill is sent to the client
E. No dispute arises between the firm and the client

20. Which of the following is **NOT** an example of Computer Audit Program?

A. Computer audit software
B. Computer audit packages
C. Purpose written computer audit
D. Clients installed file interrogation program
E. Test data pack.
PART II: SHORT-ANSWER QUESTIONS (20 Marks)

Write the answer that best completes each of the following questions/statements.

1. In the financial position of a company, ………………………... are resources arising from past events and for which future economic benefits are derivable

2. An unintentional mistake is ……………. committed by anyone in the accounting process which results in material mis-statement

3. The audit that is aimed at confirming the relationship between the value of services provided and the resources used to achieve that service is called…………..

4. The audited financial statements of every company must be filed with the ………………………

5. Auditors need negotiation skills to be able to agree fees with prospective clients or agree increase in fees with existing clients. **TWO** recommended general approaches to negotiation are………….and ……………bargaining

6. In view of the guidelines in Statement No 8 of ICAN’s Professional Conduct for Members covering “obtaining professional work” referred to under Advertising and Publicity, …………….should commence only when a firm has been approached by a prospective client

7. A chartered accountant in public practice, who is engaged to report under the relevant provisions of Companies and Allied Matters Act, CAP. C20, LFN 2004 and the listing requirements of the Nigerian Stock Exchange is known as…………..

8. The monthly accounts submitted to the Accountant-General of the Federation by a Self- Accounting Unit are referred to as………………...

9. IAS 20 deals with Accounting for Government Grants and Disclosure of Government Assistance. In the Standard, a grant in the form of a non-monetary asset may be valued at ……………..or…………..value.

10. Money laundering is an attempt to…………....the origin of the money by making it look legitimate or clean.
11. Ethical standards as contained in the ICAN Code of Professional Conduct for Members are ..........principles and statements.

12. The creditors given priority payment during a liquidation process are known as................. creditors.

13. The use of external specialist teams or consultants to perform functions which could otherwise be performed in-house is known as.............

14. A schedule prepared as part of the audit plan for determining the timing and grade of staff needed for an audit engagement is referred to as...................

15. One of the major deficiencies of our Local Standards over IFRS’s presentation of Non-current Assets is that our Local Standards do not recognise……………process.

16. To examine financial statements, in Assurance Engagements, “Responsible Parties” are linked to .................

17. Audit firms are required to ensure that their quality control policies and procedures are documented and...............to the firm’s personnel.

18. The rate of corporate.............in the last ten years has tended to increase the risk exposure of the auditor.

19. For the auditors to have a right of lien on the books and records of the client, they must have obtained.........by...............means

20. Audit......................is essential in every audit process as this reduces audit time and invariably the cost.

SECTION B: ATTEMPT QUESTION 1 AND ANY OTHER THREE QUESTIONS  (60 Marks)

QUESTION 1

CASE STUDY

You have just been appointed the Auditor of Sheerahmog Manufacturing Company Limited, which manufactures 2.0 ml syringes specifically used by veterinary doctors. Recently, it was discovered that the 2.0 ml syringes are used on human beings due to the shortage of syringes for human use.
The Federal Government has decided to phase out the 2.0ml syringe in the next three years.

In order to diversify into production of carbonated water, the Finance Director suggested that the company approach a bank for a complementary N1.26 billion required to finance the diversification program.

In spite of their proposal and cashflow to Bank of Akowonjo Plc, which was described as being fantastic, their loan application was not granted. As a result, the company is likely to go into liquidation with its numerous staff disengaged, if viable alternative is not provided to raise the required fund.

In carrying out the analysis of the sources of funds at the end of the year under review, you found that the company made much money from human trafficking to enable it accomplish the proposed plan of diversification.

At the next meeting with management of the company, you brought your findings to their knowledge and threatened to disclose it as an extraordinary item in the income schedule. Management frowned at it and were considering reviewing your appointment including fee which is currently 52% of your annual income.

**Required**

a. Identify the ethical issues involved as they relate to the auditor (2 Marks)

b. What are the **THREE** elements of fraudulent practices presented in this case? (6 Marks)

c. What are the safeguards for the ethical issues identified? (4 Marks)

d. List the issues that should be brought to the attention of the company by the auditors as regards the disclosure of the illegal act. (3 Marks)

**(Total 15 Marks)**

**QUESTION 2**

Your firm, Alheri & Co, has been appointed to carry out an audit assignment on Barders Bank Limited. The Bank’s year ended 30 September 2010. In the process of carrying out this assignment, it was discovered that no provision was made for doubtful debts. Total loans and advances of N50 billion consisting of 200 customers were found to be at various stages of performance except a N1 billion term loan granted to a Director’s relation’s company on 31 December 2009 to be
repaid in ₦100 million monthly equal instalments commencing from 31 January 2010. Interest was simply agreed at ₦100,000 per month.

As at the time of this audit, no repayment had been made on this loan.

**Required:**

a. What audit steps should be taken to ascertain the true position of the loan portfolio?  
   (5 Marks)

b. State the basis and determine the provision that should be made on the loan portfolio.  
   (10 Marks)  
   **(Total 15 Marks)**

**QUESTION 3**

a. Explain the following terms in relation to Public Sector Audit  
   i. Self-Accounting Unit  
      (2 Marks)  
   ii. Sub-Accounting Unit  
      (2 Marks)

b. As a staff in the Auditor-General’s office, outline **SIX** procedures for the audit of revenue collected on behalf of government.  
   (6 Marks)

c. i. Distinguish between Regulatory Audit and Financial Audit.  
    (2 Marks)

   ii. State **SIX** documents an auditor of a Public Sector Organisation may require in conducting a Compliance Audit.  
    (3 Marks)  
    **(Total 15 Marks)**

**QUESTION 4**

In accordance with ISA 240, the primary responsibility for the prevention and detection of fraud rests with Management. But the issue of Accountants seeking specialisation as forensic auditors has continued to dominate discussion on professional practice.

**Required:**

a. Explain forensic audit and how it applies to fraud investigation.  
   (5 Marks)

b. Compare the responsibilities of the auditor in respect of fraud when conducting
i. Statutory Audit (5 Marks)
ii. Forensic Audit (5 Marks)
(Total 15 Marks)

QUESTION 5
You are the audit manager of Kunle Segun & Co (Chartered Accountants) which has been appointed as auditors to St. Anne’s Teaching Hospital and Agrocom Farms Limited.

Required:

a. State FIVE problems associated with the audit of a Teaching Hospital. (10 Marks)

b. List the types of farms and explain the peculiar characteristics associated with the audit of farm accounts. (5 Marks)
(Total 15 Marks)

QUESTION 6
In a recent seminar you attended, it was explained that although auditors can incur civil liability under various statutes, it is far more likely that they will incur liability for negligence under common law. The paper presenter mentioned cases against auditors which were in this area. You also learnt that auditors must be fully aware of the extent of their responsibilities, together with steps they must take to minimise the danger claims arising from professional negligence.

Required:

a. Discuss the extent of auditors’ responsibilities to shareholders and other stakeholders during the course of their normal professional engagement. (8 Marks)

b. Outline FIVE steps that audit firms can take to minimise the danger of claims against them. (5 Marks)

c. Itemise TWO steps that must be taken to minimise danger of claims when the company is deemed to have been distressed. (2 Marks)
(Total 15 Marks)
1. The audit engagement partner is responsible for
   A. Audit engagement assignments at the end of each month
   B. All the audit engagements of the firm
   C. The first audit engagement of each month
   D. Each audit engagement assigned to the firm
   E. Each audit engagement assigned to him

2. The following are advantages of joint audit EXCEPT
   A. It improves the auditor’s skill
   B. Audit risk may be minimised
   C. Audit fees are shared in agreed ratios
   D. It allows for exchange of ideas and techniques
   E. Liability for negligence of each firm is jointly shared

3. The need for effective corporate governance is mostly pronounced in
   A. Joint venture business
   B. Public service
   C. Sole proprietorship business
   D. Public Limited company
   E. Limited liability company
4. Which of these may NOT be considered a feature of the professional ethics of the Institute of Chartered Accountants of Nigeria?

A. Confidentiality
B. Nationalism
C. Independence
D. Conformity with standards
E. Designatory letters

5. Which of the following documents is NOT generated in the audit of a public limited company?

A. Management Letter
B. Directors’ Letter
C. Engagement Letter
D. Management Representation Letter
E. Letter of Weakness

6. Assigning an audit team that is appropriately experienced and qualified for a particular audit is the responsibility of

A. Audit Manager
B. Senior Partner
C. Principal Partner
D. Engagement Partner
E. Managing Partner

7. Corporate governance established in public limited companies may ensure all the following EXCEPT

A. Transparency and accountability in running the entities
B. Effective and efficient operation of internal control
C. Compliance with statutory laws of the country
D. Profitability and liquidity of the company
E. Ensuring rights and privileges of the shareholders
8. Which of the following documents is NOT necessarily useful when carrying out the audit of public sector organisations?

A. Treasury Circulars
B. Financial Regulations
C. Constitution of the Federal Republic of Nigeria
D. Articles of Association
E. Audit Act of 1956

9. The report of the Auditor-General for the Federation is received by..................Committee which has constitutional power to invite any person indicted to come for public hearing

A. Audit Alarm
B. Audit
C. Public Accounts
D. Ad-hoc
E. Joint Assembly

10. The reporting accountant normally writes a letter to support the mentioning of his name in the prospectus. This letter is known as Letter of

A. Support
B. Confirmation
C. Comfort
D. Consent
E. Representation

11. In appraisal of expectation gap, performance gap is caused by all of the following EXCEPT

A. Inadequate technical skills
B. Unreasonable audit budget
C. Wrong perception of auditor’s opinion by the user of financial statements
D. Insufficient audit evidence obtained
E. Outdated knowledge
12. Which of the following reports was NOT used in the development of Combined Code of Corporate Governance?

A. Turnbull report
B. Cadbury report
C. Maxfield report
D. Hempel report
E. Greenbury report

13. Which of the following statutory laws is NOT relevant to a quoted Nigerian bank?

A. Central Bank of Nigeria Act
B. Companies and Allied Matters Act
C. Nigerian Stock Exchange rules and regulations
D. Banks and Other Financial Institutions Act
E. Financial Memoranda Act

14. Internal control is ineffective when computer department personnel

A. Participate in the installation of the computer system
B. Originate changes in master files
C. Provide physical security for program files
D. Design documentation for computerised systems
E. Participate in computer software acquisition decision

15. Sarbanes-Oxley Act (2000) requires that audit working papers should be retained by the auditor for at least

A. 10 years
B. 7 years
C. 5 years
D. 4 years
E. 3 years
16. The Computer Assisted Audit Technique that the auditor would employ to best advantage when auditing a data based management system is

A. A purpose-written program  
B. Utility program  
C. Embedded audit facility  
D. Package program  
E. Test data

17. The key audit objectives of a client’s payroll include the following **EXCEPT** to

A. Test the accuracy of compensation earned under profit-sharing or bonus plans  
B. Determine unrecorded liabilities  
C. Determine the reasons for significant fluctuations in salaries, wages and commissions  
D. Obtain an understanding of the internal control over payroll  
E. Determine pension liabilities by reference to authorised pension plans and supporting records

18. In an IT-based system, the auditor should document the system control using systems

A. Monitoring charts  
B. Control charts  
C. Flow charts  
D. Algorithm charts  
E. Processing charts

19. The primary functions of the Board of Directors in Corporate Governance do **NOT** include

A. Selecting, evaluating and/or replacing the Chief Executive Officer  
B. Reviewing and approving the major strategies of the organisation  
C. Preparing and approving the financial statements and other policies of the organisation  
D. Advising management on significant issues facing the organisation  
E. Overseeing processes for evaluating the adequacy of enterprise risk management and compliance
20. The auditor will not be liable for client’s losses **EXCEPT** where

A. He conducted the audit with due diligence
B. The client’s losses were not caused by misstated financial statements
C. The statute of limitation had expired
D. The client’s loss is not substantial
E. The client knew of the financial misstatements

**SECTION A: PART II**

**ATTEMPT ALL QUESTIONS**

(20 Marks)

**SHORT-ANSWER QUESTIONS**

Write the answer that best completes each of the following questions/statements.

1. A company switching to IFRS for the first time may have to .......... additional assets and liabilities in order to make the financial statements IFRS compliant.

2. The users of audited financial statements expect auditors to use their professional experience and technical skills in carrying out audits. Where the performance falls short of this, there is ................. gap.

3. An assignment in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users is called ..................

4. Computer audit programs and files that are permanently integrated within the client’s computerized accounting application and used by auditors for performing audit tests are known as .........................

5. Whenever going concern problem is identified, the Auditing Guidelines state that the auditor should qualify the audit report with ................. opinion.

6. In relation to computer system, a code involving an access restriction control mechanism to prevent unauthorised access to information is called .................

7. When an asset falls in value and this fall is not because of normal consumption (i.e. due to depreciation and amortisation) this reduction is referred to as .................
8. IAS 31 recognises that a .................. is a contractual arrangement when two or more parties come together and form an economic activity in which both or all parties have joint control.

9. Any contract that gives rise to both financial asset of one entity and financial liability or equity instrument of another entity is a .........................

10. The aggregate of short-term, highly liquid investments which are readily convertible into known amount of cash without any insignificant risk of changes in value in cash flow statement is referred to as .........................

11. A network that connects computer and peripheral equipment within a local area such as single building or a small cluster of buildings for intra-company use is .........................

12. The portion of auditor’s working paper containing the detailed accounts from the general ledger making up the line item total in the working trial balance is called .........................

13. The possibility that the auditor will draw an invalid conclusion from his compliance and substantive tests is known as .........................

14. The deposit which an Insurance company is required to maintain with the Central Bank of Nigeria at all times and which is not available for use by the Insurance Company except in limited circumstances as may be approved by the National Insurance Commission is called .........................

15. A present obligation of an enterprise arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits is known as a .........................

16. ISA 240 deals with the guidelines on how the auditor is to handle the possibility of the ......................... of fraud and error.

17. A situation where an auditor or person faces a decision that affects the welfare of others and/or exhibits inappropriate behaviour is called ethical .........................

18. The application of compliance or substantive procedure to less than 100% of the items within a class of particular transactions is called .........................
19. Where a client imposes a significant restriction on the scope of the audit, the auditor should give ..................... opinion on the financial statements.

20. The procedure that involves computation of ratios, studying of trends and the use of statistical formulae to obtain audit evidence is known as .....................

SECTION B: ATTEMPT QUESTION ONE AND ANY OTHER THREE QUESTIONS (60 Marks)

QUESTION 1

CASE STUDY

BELONEY LIMITED

In the course of the audit of Beloney Limited for 2012, areas of exceptions were discovered where vital documents were removed from the Information Technology (IT) department. There were also obvious duplication of duties in some units in the department. These weakened the internal control system and made the work of verification of some audit evidence fairly difficult. However, with a lot of assumptions, the auditors were able to conclude the exercise and issued a qualified audit report.

In addition, Beloney Limited is currently engaged in an expansion program which necessitated some essential expenses in the 2012 accounts. The company also developed an additional product named “LIQUID” the same year.

You are required to:

a. Identify TEN mitigating controls that may address or monitor a lack of segregation of duties in the IT department. (10 Marks)

b. Present the basic information you expect to see in the sub business plan leading to the expansion programme. (5 Marks)

(Total 15 Marks)
QUESTION 2

Oil and Gas Limited is a company involved in the upstream petroleum activities in the Vanguard Delta. The restiveness of the youth in this area of operation was a result of environmental degradation of the region. Your firm has just been appointed as the auditor of the company. During preliminary planning stage of the audit, you realised that the environmental issues could have impact on the financial statements.

You are required to:

a. Present EIGHT steps you would include in the audit process in order to highlight environmental issues that may be apparent in the client’s business. (8 Marks)

b. Explain SEVEN major social issues that an auditor will be concerned with in a company’s social policy report. (7 Marks)

(Total 15 Marks)

QUESTION 3

The Federal Government of Nigeria recently received a team of foreign investors to invest in the on-going privatisation of the Banana Holding Company of Nigeria (BHCN), a major electricity supplier.

One of the investors, Pandora Plc, is interested in a subsidiary of BHCN and wants to be sure of the financial position presented and requests for a medium sized audit firm to carry out the investigation.

You are required to:

a. Compare your role as a statutory Auditor with that of a Due Diligence Assurance provider. (8 Marks)

b. Identify the steps involved in carrying out a due diligence assignment. (3 Marks)

c. Assess the extent to which the application of auditing standards and guidelines can be relevant to assurance engagements and audit assignments. (4 Marks)

(Total 15 Marks)
QUESTION 4

a. Analyse and evaluate any **FOUR** fundamental principles of ethical standards as provided in the Institute of Chartered Accountants of Nigeria’s Code of Professional Conduct for Accountants. (4 Marks)

b. Outline the penalties for a member’s unethical behaviour. (4 Marks)

c. Outline the powers available to the Institute to enforce the ethical standards. (7 Marks)

**Total 15 Marks**

QUESTION 5

Your firm has been invited to carry out the audit of a multi-billion dollars old people’s home project in Lome Togo. The project is financed solely by donations from non-governmental organisations (NGO) in that country.

a. What steps would you take in the assessment of the system of internal control as it affects the local operations? (8 Marks)

b. Identify the contents of an audit report assuming that there are no reasons to qualify the report. (7 Marks)

**Total 15 Marks**

QUESTION 6

In connection with accountancy and audit, an expert or specialist is a firm or person that possesses special skills in a profession other than accountancy.

You are required to:

a. Assess the audit significance of evidence from experts. (2 Marks)

b. Identify **FIVE** items on which evidence from experts may be required and justify the need to consult an expert on each item. (10 Marks)

c. Identify **THREE** factors to be considered before placing reliance on the report of a specialist. (3 Marks)

**Total 15 Marks**