

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL LEVEL EXAMINATION – 2025- PILOT QUESTIONS
ADVANCED AUDIT, ASSURANCE AND FORENSICS

Time Allowed: 3¼ hours (including 15 minutes reading time)

INSTRUCTION: **YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF THE SEVEN QUESTIONS IN THIS PAPER**

SECTION A: **COMPULSORY QUESTION** **(30 MARKS)**

QUESTION 1

Adedeji & Partners, a firm of chartered accountants, has recently been appointed as the statutory auditor of **Prime Harvest Foods Ltd**, a medium-sized agricultural processing company operating in Nigeria. The company processes and distributes packaged organic food products for both local and export markets.

This is the first year that Adedeji & Partners will audit the company, replacing the previous auditors who had served for over ten years but chose not to seek reappointment. Prime Harvest Foods Ltd's financial year ends on 31 December 20X4, and the audit is scheduled to begin in early February 20X5.

During the **audit planning phase**, the engagement partner and audit team carried out preliminary meetings with management. From discussions and review of internal documents, the following matters were noted:

- a) The company has experienced **significant growth** in export sales, especially to the UK and European markets. Export revenue has increased by 45% compared to the previous year.
- b) The company recently **acquired a new processing plant** in northern Nigeria, which required a bank loan. The loan covenant requires the company to maintain a minimum current ratio and profit margin.
- c) Prime Harvest Foods Ltd uses **an in-house inventory system**, which has had issues in the past, especially with timely updating of stock records from remote locations.
- d) Inventory makes up approximately **40% of total assets**. A physical inventory count is planned for 30 December 20X4. The company has invited the audit team to attend.
- e) There is a **new financial controller**, appointed only two months ago. The previous controller resigned suddenly and left no handover notes.
- f) The company intends to **revalue its land and buildings** for the first time in five years. A valuation expert has been engaged.
- g) Management has expressed interest in obtaining **an unqualified audit opinion** as they are preparing for a potential listing on the Nigerian Exchange.

Required:

- a) Identify and explain four key matters that Adedeji & Partners should consider when planning the audit of Prime Harvest Foods Ltd. **8 marks**
- b) What are the audit risks associated with the loan covenant, and how should the audit team respond? **5 marks**
- c) List three audit procedures the team should perform in relation to the revaluation of land and buildings. **3 marks**

- d) Why is attending the inventory count important, and what procedures should the auditor perform during the count? **7 marks**
- e) What ethical considerations should Adedeji & Partners keep in mind regarding the client's desire for an unqualified opinion? **7 marks**

(Total 30 Marks)

SECTION B:

**INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY TWO OUT OF THE THREE
QUESTIONS IN THIS SECTION (40 MARKS)**

QUESTION 2

Northbridge Pharmaceuticals Ltd, a public interest entity based in Nigeria, operates within the pharmaceutical sector. Its core business activities include the importation, manufacturing, and distribution of pharmaceutical products across the country. For the financial year ending 31 December 20X4, Northbridge appointed *Emeka & Co. Chartered Accountants* as its statutory external auditors.

During the course of the audit, the audit team encountered several significant matters that warranted careful evaluation and professional judgment. These matters also required appropriate communication with the company's management and those charged with governance to ensure transparency and compliance with audit standards and regulatory guidelines.

One of the primary concerns raised involved the valuation of inventory. The company was holding a substantial amount of inventory—particularly antibiotics and vaccines—that were approaching their expiry dates. The auditors questioned the recoverability and market value of such stock and highlighted the potential need for a write-down in line with applicable accounting standards.

Another issue involved pending legal proceedings. A class action lawsuit had been initiated by a group of patients alleging adverse side effects from a specific pain-relief drug manufactured by Northbridge. At the time of the audit, the company's legal advisers had yet to estimate the possible financial consequences, creating uncertainty about the potential liabilities.

In addition, a subsequent event was identified: on 15 January 20X5, a fire incident occurred at one of Northbridge's major distribution centres. The fire resulted in the destruction of inventory and key assets. This event occurred after the reporting date but before the issuance of the auditor's report, and its implications on disclosure or audit opinion needed to be evaluated.

Finally, Northbridge voluntarily included sustainability-related disclosures in its annual report. However, upon review, the audit team noted that some environmental impact metrics—such as reported CO₂ emissions—appeared inconsistent with known industry benchmarks and past company performance, raising questions about the credibility of the disclosed figures.

The audit team must assess the implications of each of these matters on the financial statements and determine the most appropriate audit opinion, disclosures, and reporting format in accordance with the relevant International Standards on Auditing (ISAs) — particularly ISA 700, 701, 705, 706, and 720 — and the audit guidelines issued by the Financial Reporting Council (FRC) of Nigeria.

Required:

- a) What procedures should be applied regarding subsequent events such as the fire incident, and how should the auditor respond if management refuses to disclose it? **4 Marks**
- b) What is a Key Audit Matter (KAM), and how should the inventory valuation issue be treated under ISA 701? **7 Marks**
- c) Explain how the auditor should handle inconsistencies in sustainability disclosures included in the annual report under ISA 720? **4 Marks**
- d) Discuss the auditor's reporting responsibilities regarding the unresolved legal proceedings and when it may be appropriate to refer to a specialist. **4 Marks.**

. **(Total 20 marks)**

QUESTION 3

You are an audit senior in the firm of **Obinna & Associates**, Chartered Accountants. Your firm has recently been appointed as the statutory auditor of **Gourmet Delights Ltd**, a limited liability company operating in Nigeria, for the financial year ended 31 December 20X4. The company is engaged in the importation, distribution, and retail of Spanish food products.

Gourmet Delights Ltd maintains computerised inventory systems at both its distribution centre and retail outlets. Retail sales are on a cash basis, while sales to supermarkets and independent retailers are on credit. Inventory levels and receivables have increased due to a 12% growth in revenue over the past year. The company is also planning expansion and has applied for a bank loan for which audited financial statements are required.

The website designed for online ordering was delivered two months late, resulting in Gourmet Delights Ltd initiating legal proceedings against the consultants despite having paid them in full. The former auditors did not wish to be reappointed, and your firm has received professional clearance from them.

Required:

- a) Discuss the legal and regulatory considerations your firm must take into account before accepting the audit engagement of Gourmet Delights Ltd? **4 marks**
- b) Identify and explain two key legal implications that may arise from the company's decision to sue the website consultants, and how these may impact your audit approach? **7 Marks**
- c) Outline the auditor's responsibilities under Nigerian law and auditing standards in relation to reporting non-compliance with laws and regulations (NOCLAR) in the context of this audit? **4 Marks**
- d) Evaluate the implications of the management's desire to expedite the audit completion by 28 February 20X5, in view of their loan application, and how this could affect audit quality? **5 marks**

(Total 20 Marks)

QUESTION 4

Oluwole & Co., a medium-sized audit firm in Lagos, Nigeria, recently underwent a strategic expansion to accommodate a growing client base that includes international and public interest entities. In an attempt to align its quality practices with international standards, the firm began implementing the requirements of **ISQM 1** and **ISQM 2**.

During an internal quality inspection, several significant quality issues were discovered:

- a) Key audit working papers were incomplete, unsigned, or poorly documented. Audit conclusions were not clearly linked to audit evidence.
- b) The firm accepted a complex multinational client, **GlobeFoods Ltd**, without performing a documented risk assessment or consulting its technical experts.
- c) Junior staffs with little IFRS knowledge were assigned to high-risk engagements without supervision.
- d) Engagement Quality Reviews (EQRs) were either conducted after the audit opinion was signed or not at all.
- e) Although recurring deficiencies had been noted from previous inspections, there was no evidence of root cause analysis or formal remediation.
- f) The firm had not updated its quality control manual to reflect the changes introduced by ISQM 1 and ISQM 2.

This situation has raised serious concerns among the firm's leadership, especially with an external review from the Financial Reporting Council of Nigeria (FRCN) scheduled within the year.

Required:

- a) Identify and explain the key deficiencies in the firm's system of quality management as described in the case? **7 marks**
- b) What steps should Oluwole & Co. take to correct these deficiencies and enhance their system of quality management? **5 marks**
- c) According to ISQM 1, what role does leadership play in ensuring audit quality, and how is it deficient in this case? **4 marks**
- d) Why are Engagement Quality Reviews important, and when are they required under ISQM 2? **4 marks**

(Total 20 marks)

SECTION C: OPEN-ENDED QUESTIONS

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

You are an audit senior at **Adeyemi & Partners**, Chartered Accountants. Your audit team is currently working on the statutory audit of **Savory Bites Ltd**, a company involved in importing and selling gourmet Spanish food products across Nigeria. The audit is for the year ended 31 December 20X4.

During the course of the audit, several professional and ethical issues have arisen:

- a) The audit manager, Mr. Johnson, has a close friendship with the CFO of Savory Bites Ltd. They attend social events together, and the CFO recently paid for Mr. Johnson's hotel stay during a holiday in Spain.
- b) Savory Bites Ltd has offered your firm a lucrative contract to design and implement a new inventory control system across its retail outlets. The contract is worth over ₦10 million and would be handled by your firm's consultancy arm.
- c) During the audit, you discovered that a significant portion of cash takings from one of the retail outlets was not banked but was instead used by the outlet manager to pay some suppliers in cash. These payments were not properly recorded in the company's accounting system.
- d) The audit partner is under pressure from the client to sign off the audit report early so they can present the financial statements to a prospective investor. However, several audit procedures, including the review of legal expenses and inventory valuation, have not yet been completed.

Required:

- a) Identify the ethical threats present in this case, with reference to the IFAC Code of Ethics? **3 marks**
- b) What actions should Adeyemi & Partners take in response to the identified ethical issues? **4 marks**
- c) What ethical principles from the IFAC Code are at risk of being breached in this case? Explain? **4 marks**
- d) What steps should an audit firm take to prevent ethical conflicts and ensure compliance with professional standards? **4 marks**

(Total 15 marks)

Question 6

TechLife Retail Ltd. is a fast-growing e-commerce company in Nigeria specializing in the sale of consumer electronics. The company operates a fully digital platform with online payment integration, automated inventory management, customer analytics, and a CRM system. TechLife has recently undergone a significant digital transformation, integrating Robotic Process Automation (RPA) in their financial reporting process and using algorithms to set dynamic pricing on its platform.

The company engaged Opara & Associates, Chartered Accountants, to perform an audit for the year ended 31 December 20X4. During the audit, the team encountered several IT-related issues:

- a) **Cybersecurity Controls:** The company experienced a minor data breach in October 20X4. Though no major customer data was lost, auditors are concerned about the adequacy of cybersecurity controls.
- b) **Algorithm Review:** Auditors found that the pricing algorithm lacked a documented control framework. There were inconsistencies in pricing during promotional periods.
- c) **Use of RPA:** TechLife has deployed bots for bank reconciliations and revenue postings. However, change logs and exception reporting for the bots were not adequately maintained.
- d) **Data Privacy Compliance:** The auditors noted that TechLife collects and stores customer data but has no documented data protection policy in line with the Nigeria Data Protection Regulation (NDPR).

Required:

- a) What is the role of cybersecurity in audit engagements, and how should the audit team respond to the data breach experienced by TechLife Retail Ltd.? **5 marks**
 - b) Explain the importance of reviewing algorithms in business audits and identify concerns with TechLife's pricing model. **3 marks**
 - c) Discuss how Robotic Process Automation (RPA) can affect audit procedures and identify what issues the auditors should raise regarding TechLife's RPA usage. **4 marks**
 - a) What audit procedures should be carried out to assess TechLife's compliance with data protection regulations such as the NDPR? **3 marks**
- (Total 15 marks)**

Question 7

GlobalTech Logistics Ltd. is a multinational transport and supply chain company operating across West Africa. For the year ended 31 December 20X4, the company engaged Kalu & Partners, Chartered Accountants, to perform the annual audit. The company has recently invested in modern technologies to support its operations and improve efficiency. These include:

- a) A private block chain system to track logistics and verify delivery transactions.
- b) AI-powered predictive analytics to optimize inventory and route management.
- c) Migration of accounting systems to a cloud-based ERP platform.
- d) Adoption of data analytics tools for internal control monitoring and anomaly detection.
- e) A previous long-term engagement with their former audit firm ended following regulatory enforcement of audit partner rotation rules.

The audit team must assess the implications of these new technologies on audit planning, procedures, and reporting.

Required:

- a) How does the use of blockchain technology affect the audit of GlobalTech's logistics and transaction systems? **3 marks**
 - b) What considerations should the audit team have in evaluating the impact of AI tools used in GlobalTech's operations? **3 marks**
 - c) Discuss the benefits and challenges of using cloud-based audit tools in the audit of GlobalTech? **3 marks**
 - d) Explain the importance of audit firm or partner rotation in the context of GlobalTech's change in audit firm? **6 marks**
- (Total 15 marks)**

SUGGESTED SOLUTION

QUESTION 1

- a) The following are **four key matters that Adedeji & Partners should consider when planning the audit of PrimeHarvest Foods Ltd.**

a. **First-Year Audit Considerations:**

- i. As this is the first audit, there will be **no prior year working papers**. The firm must plan extra time for understanding the business and systems.
 - ii. A **review of opening balances** is required under ISA 510.
- b. **Significant Growth in Export Sales:** Rapid growth may indicate **risks of revenue recognition errors** or fraud. Controls over international sales, documentation, and currency translation must be reviewed.
- c. **Inventory System and Valuation:** Inventory is a **material balance** and historically had system issues. Attendance at the year-end **inventory count** is necessary to verify existence and assess controls.
- d. **Change in Key Management Personnel:** The recent change in the financial controller increases the **risk of errors** or poor-quality financial reporting due to **lack of continuity and knowledge**.

- b) **The audit risks associated with the loan covenant, and the audit team respond are as follows.**

Audit Risks	Audit Responds
Management bias: Pressure to meet loan covenants may lead to manipulation of revenue, profit, or current asset balances.	Perform analytical procedures to assess whether covenant thresholds are met.
Going risk: If covenants are breached, the company could face penalties or demand for immediate repayment.	Review loan agreement for covenant terms.
	Assess management's estimates and adjustments for potential bias.
	Ensure appropriate disclosure is made if there's uncertainty about compliance.

- c) Three audit procedures the team should perform in relation to the revaluation of land and buildings are as follows:

- e. **Obtain and review the valuation report** from the expert for appropriateness, including methods used, date of valuation, and professional qualifications.

- f. **Assess the independence and competence** of the expert, as required under ISA 620.
 - g. **Recalculate depreciation** based on new asset values and ensure correct **accounting treatment** under IAS 16 and appropriate disclosure in the financial statements.
- d) The inventory counts attendance importance (including what procedures the auditor should perform during the count) are as a result of the following:

Importance	Procedures
Inventory is a material item, and attendance helps verify existence and condition of stock and evaluate the effectiveness of management's counting procedures .	Observe the counting process and ensure procedures are followed.
	Perform test counts and trace to inventory sheets.
	Verifying any obsolete or damaged stock is properly recorded
	Ensure all locations are covered if stock is held in multiple warehouses.

- e) **The ethical considerations that should be kept in mind regarding the client's desire for an unqualified opinion by Adedeji & Partners keep are as follows:**
- h. **Objectivity and Independence (Code of Ethics):** The auditor must remain objective and avoid being influenced by the client's expectations.
 - i. **Professional Skepticism:** The team should maintain a questioning mindset and not assume that the desire for an unqualified opinion equates to clean records.
 - j. **Audit Opinion Integrity:** If material misstatements exist, the firm must modify the opinion regardless of pressure from the client.
 - k. **Transparency:** Any threats to independence or undue pressure should be documented and reported internally as part of ethical safeguards.

Question 2:

- a) Before accepting the audit engagement of Gourmet Delights Ltd, Obinna & Associates must consider the following legal and regulatory factors in line with the **International Standards on Auditing (ISA) 210 – Agreeing the Terms of Audit Engagements** and **ICAN/NBAA/NASB guidelines**:
- i. **Professional Clearance (Ethical Requirement):**
Obinna & Associates has received professional clearance from the outgoing auditors, which satisfies the ethical requirement to ensure no professional or ethical issues exist that would prevent acceptance of the engagement.
 - ii. **Independence and Objectivity:**
The firm must ensure compliance with the **Code of Ethics for Professional Accountants** issued by IFAC and ICAN, especially regarding independence and the avoidance of conflicts of interest.

- iii. **Legal Eligibility and Qualification:**
Obinna & Associates must confirm they are legally qualified to act as statutory auditors under the **Companies and Allied Matters Act (CAMA) 2020** in Nigeria.
 - iv. **Terms of Engagement:**
An audit engagement letter must be prepared and agreed with management in accordance with **ISA 210**, clearly stating the scope, responsibilities of both parties, applicable financial reporting framework, and form of report to be issued.
 - v. **Assessing Integrity of Management:**
The firm should evaluate whether management appears to have integrity, as the late launch of the website and ongoing litigation may indicate issues with internal control or project oversight.
- b) Two key legal implications that may arise from the company's decision to sue the website consultants, and how these may impact the audit approach are as follows.
- i. **Contingent Asset or Liability:**
The legal proceedings initiated by Gourmet Delights Ltd for breach of contract may result in compensation. However, as per **IAS 37 – Provisions, Contingent Liabilities and Contingent Assets**, such amounts should only be recognised when it is virtually certain. If not, adequate disclosure must be made.
 - ii. **Audit Approach:** Review legal correspondence, consult with the company's legal advisors, and assess the likelihood and potential financial impact of the outcome. This will affect the audit opinion if not properly disclosed.
 - iii. **Going Concern Assessment:**
If the litigation is material and involves significant sums or risk, it could affect Gourmet Delights Ltd's financial position, especially considering they are seeking funding for expansion.
 - iv. **Audit Approach:** Evaluate whether the outcome of the litigation could affect the company's ability to continue as a going concern. Inquire of management about contingency planning and assess the adequacy of related disclosures.
- c) Under **ISA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements**, and the provisions of **CAMA 2020**, the auditor has the following responsibilities:
- v. **Understanding Legal Framework:**
The auditor must obtain a general understanding of the legal and regulatory framework applicable to Gourmet Delights Ltd (e.g., tax laws, labour laws, food safety, and importation regulations).
 - vi. **Detection of Material Misstatements:**
The auditor is responsible for designing audit procedures to detect material misstatements in the financial statements due to non-compliance.

vii. Reporting Obligations:

If any actual or suspected non-compliance is identified, the auditor must:

- a. Discuss the matter with management or those charged with governance.
- b) Consider the Impact on the financial statements
- c) Determine whether the matter should be reported to regulatory or enforcement authorities, especially if required by law or public interest.

d. Documentation and Communication:

The auditor must document all findings, discussions, and actions taken in response to NOCLAR. If management fails to act appropriately, the auditor may need to consider resignation or modification of the audit opinion.

- e) By evaluating the implications of the management's desire to expedite the audit completion by 28 February 20X5, in view of their loan application, and how this could affect audit quality will be as detailed below:
 - a. **Pressure on Audit Timeline:**
Management's push to complete the audit early may compromise the auditor's ability to perform sufficient and appropriate audit procedures, increasing audit risk.
 - b. **Risk of Management Bias:**
The urgency tied to securing a bank loan may pressure management to present overly optimistic financial results, creating a risk of material misstatement due to bias or fraud.
 - c. **Audit Response:**
 - i. The audit team must plan adequately to manage time constraints without compromising audit quality.
 - ii. Professional scepticism must be exercised, especially when reviewing key areas like revenue, receivables, and inventory.
 - iii. Consider engaging additional audit staff or using interim audit procedures to meet deadlines without lowering assurance standards.

Question 3

- a) The deficiencies include:
 - a. **Inadequate Documentation and Review:**
Violates ISQM 1's requirement for engagement performance and monitoring. Working papers must be sufficiently completed and reviewed.
 - b. **Poor Client Acceptance Procedures:**
Accepting GlobeFoods Ltd without risk assessment breaches the firm's responsibilities under ISQM 1 to evaluate integrity, competence, and engagement risk before client acceptance.
 - c. **Unqualified Staff Assignments:**
Assigning junior staff to complex IFRS areas without training or supervision breaches the 'resources' element of ISQM 1.
 - d. **Non-compliance with EQR Requirements (ISQM 2):**
Failure to perform timely and documented EQRs contravenes ISQM 2, which requires reviews to be completed before the audit report is issued.
 - e. **Lack of Root Cause Analysis and Remediation:**
Not addressing recurring issues shows a breakdown in the monitoring and remediation component of ISQM 1.

f. **Outdated Quality Control Manual:**

Indicates failure to implement and communicate updated standards (ISQM 1/2), breaching the governance and information components.

b) The firm should:

a. **Update Policies and Manuals:**

Reflect ISQM 1 and ISQM 2 requirements, including new governance structures, quality objectives, and engagement performance policies.

b. **Improve Engagement Documentation:**

Establish documentation standards and assign responsibility for review and completion of audit files.

c. **Formalize Client Risk Assessment Procedures:**

Implement a checklist-based system to evaluate risk factors before accepting or continuing with a client.

d. **Enhance Staff Training and Supervision:**

Introduce regular training on IFRS, risk assessment, and audit methodology. Assign experienced supervisors to guide junior staff.

e. **Strengthen EQR Processes:**

Ensure that EQRs are completed and documented before signing audit reports. Appoint qualified reviewers with independence from the engagement team.

f. **Conduct Root Cause Analysis:**

Investigate quality failures, identify underlying issues, and implement remediation plans (e.g., retraining, procedural changes).

g. **Introduce Internal Monitoring:**

Schedule annual internal inspections and ensure findings are reported to leadership with clear action plans.

c) Under ISQM 1, leadership is responsible for:

- i. Setting a **culture that prioritizes quality** over commercial interests.
- ii. Assigning clear responsibilities for managing quality within the firm.
- iii. Ensuring sufficient **resources** (time, personnel, tools) are allocated to engagements.
- iv. Monitoring outcomes and acting on deficiencies.

Deficiency in this case:

The leadership failed to act on repeated quality issues, did not allocate appropriate staff or supervision, and neglected updating policies. This reflects weak governance and a lack of tone-at-the top commitment to quality.

d) **Importance Engagement Quality Reviews:**

- i. Provide an objective evaluation of significant judgements made by the engagement team.
- ii. Add a layer of quality assurance before the audit report is issued.
- iii. Reduce the risk of audit failure, especially in complex or high-risk engagements.

When Required (ISQM 2):

- i. For public interest entities (PIEs) and listed companies.
- ii. Where the engagement is high-risk (e.g., first-time audits, complex estimates).

- iii. When required by law or firm policy.
- iv. Based on the firm's risk assessment procedures.

Question 4

- a) The fire incident is a **subsequent event** that occurred **after the reporting period but before the audit report was signed**. Under **ISA 560**, the auditor must determine whether it is an **adjusting event** (related to conditions existing at year-end) or a **non-adjusting event** (arising after the reporting period).

In this case, the fire is a **non-adjusting event**. However, due to its material impact, **disclosure is required** in the notes to the financial statements.

If management refuses to disclose this, the auditor should consider the impact on the audit opinion. The refusal constitutes a **material omission**, and the auditor should issue a **qualified or adverse opinion** depending on the severity, in accordance with **ISA 705**. The auditor should also communicate this issue to those charged with governance and document all discussions and decisions.

- I. A **Key Audit Matter (KAM)** is defined under **ISA 701** as those matters that, in the auditor's professional judgment, were of **most significance** in the audit of the current period's financial statements.

Inventory valuation, especially with the presence of near-expiry items, involves significant management judgment and estimation uncertainty. This makes it a **prime candidate for KAM disclosure**.

The auditor should:

- a. Describe why the matter was considered significant.
- b. Outline how the matter was addressed during the audit (e.g., testing inventory aging, evaluating write-down policies, checking subsequent sales).
- c. Avoid including original information not already disclosed by management.

In the auditor's report, the KAM would be presented under a dedicated section titled "**Key Audit Matters**", without modifying the opinion.

- b) ISA 720 deals with the auditor's responsibilities relating to "**other information**" in documents containing audited financial statements, such as the annual report.

The sustainability report is part of this "other information." The auditor must:

- I. **Read the information** and consider whether it is **materially inconsistent** with the financial statements or the auditor's knowledge obtained during the audit.
- II. If inconsistencies are found, as with the questionable CO₂ metrics, the auditor should **discuss the issue with management** and seek corrections.

If management refuses to make necessary amendments, the auditor may:

- I. Describe the inconsistency in an **“Other Matter” paragraph** in the auditor’s report.
- II. Consider whether the inconsistency impacts the auditor’s opinion or undermines management’s credibility.

All actions should be well documented, and the auditor should remain objective and comply with ethical standards under the **ICAN Code of Ethics**.

- c) Legal proceedings, particularly those with potential material financial impacts, must be evaluated carefully. If management cannot reliably estimate the outcome, the auditor must assess whether this represents a **contingent liability** requiring disclosure under **IAS 37**.

If the matter is **material and uncertain**, and management discloses it adequately, the auditor may include an **Emphasis of Matter paragraph** under **ISA 706** to draw attention to the note in the financial statements.

If the disclosure is insufficient or unreliable, the auditor may:

- I. Seek an **independent legal opinion**, particularly where litigation is complex or lacks internal legal clarity. This is when it is appropriate to **refer to a specialist**.
- II. Depending on the adequacy of evidence and disclosures, the auditor may need to **modify the opinion** or **withdraw** from the engagement if there's significant limitation or ethical concern.

Question 5

- d) The IFAC Code of Ethics outlines five key ethical threats: **self-interest, self-review, advocacy, familiarity, and intimidation**. The threats in this case include:
 - I. **Familiarity Threat** – Mr. Johnson's close personal relationship with the CFO may compromise his objectivity and independence. The holiday gift may be considered undue influence or hospitality, leading to a potential loss of professional scepticism.
 - II. **Self-Interest Threat** – The offer of a consulting contract to Adeyemi & Partners could impair the firm’s objectivity, especially if the audit team may be influenced by the prospect of future financial gain.
 - III. **Self-Review Threat** – If the firm accepts the contract to design the inventory system, there is a risk that the auditors may later audit a system they helped create, impairing objectivity.
 - iv. **Intimidation Threat** – The client's pressure to issue the audit opinion before completing necessary procedures is an intimidation threat. It could lead the auditor to compromise quality due to client influence.
- e) The firm should respond as follows:
 - a. **Familiarity Threat (Mr. Johnson and CFO):**
 - i. Remove Mr. Johnson from the audit engagement.
 - ii. Ensure all team members complete an independence declaration.
 - iii. Consider whether disciplinary or remedial action is needed internally.
 - b. **Self-Interest and Self-Review Threat (Consulting Contract):**
 - i. Decline the consulting engagement while acting as statutory auditors.
 - ii. If accepted, establish safeguards such as using a separate team and obtaining informed client consent, or resigning as auditor to maintain independence.

- c. **Intimidation Threat (Pressure to Sign Early):**
 - i. Communicate firmly with management and those charged with governance that the audit cannot be signed off until all procedures are satisfactorily completed.
 - ii. Document any pressure and responses in the audit file.
 - iii. Consider modifying the audit opinion or withdrawing from the engagement if the pressure continues.

- f) The key ethical principles at risk are:
 - i. **Integrity** – Accepting benefits (e.g., holiday expenses) or yielding to pressure may compromise the auditor's honesty and straightforwardness.
 - ii. **Objectivity** – Personal relationships and the promise of future income may impair the auditor's ability to act impartially.
 - iii. **Professional Competence and Due Care** – Rushing the audit to meet client deadlines without completing necessary procedures would violate this principle.
 - iv. **Confidentiality** – While not explicitly breached in this case, care must be taken when working across audit and consulting roles to avoid misuse of confidential information.
 - v. **Professional Behaviour** – The auditor must comply with relevant laws and avoid actions that may discredit the profession, such as signing off an incomplete audit.

- g) To prevent ethical conflicts, the firm should:
 - i. **Implement Strong Ethical Policies:**
Establish a code of conduct and provide regular training on the IFAC Code of Ethics.
 - ii. **Independence Checks:**
Require team members to declare financial, personal, or business relationships before every engagement.
 - iii. **Segregation of Roles:**
Separate audit and non-audit service lines to avoid self-review threats.
 - iv. **Rotation of Senior Staff:**
Rotate engagement partners and key audit staff periodically to mitigate familiarity threats.
 - v. **Quality Control Reviews:**
Conduct independent reviews of audit files, especially in high-risk engagements.
 - vi. **Whistleblowing Mechanism:**
Enable staff to report ethical concerns anonymously.

Question 6

- a) Cybersecurity plays a vital role in audit engagements as it ensures the integrity, confidentiality, and availability of financial data. The audit team should:
 - a. Review TechLife's IT control environment.
 - b. Evaluate whether incident response and data recovery procedures were adequate.
 - c. Assess the risk of material misstatement resulting from the breach.
 - d. Recommend strengthening access controls, user authentication, and encryption protocols.
 - e. Consider reporting a key audit matter if the breach has a material impact.

- b) Reviewing algorithms is essential to ensure transparency, accuracy, and consistency in automated decision-making. For TechLife, the lack of a documented control framework raises the following concerns:
 - a. Potential for errors or manipulation of prices during sales events.

- b. Inability to audit or replicate pricing logic.
- c. Lack of audit trail and accountability in the event of complaints or revenue discrepancies.

The auditors should recommend proper documentation, testing, and control monitoring of the pricing algorithm.

- c) RPA can streamline audit procedures by automating repetitive tasks, reducing human error, and improving audit efficiency. However, risks arise if:
 - a. There is no oversight or logs to track bot performance.
 - b. Exceptions are not reported or corrected.
 - c. Unauthorized changes go undetected.

In TechLife's case, the audit team should advise implementing bot monitoring controls, exception reports, and regular validations to ensure accuracy and reliability of financial data processed by bots.

- d) The audit team should carry out the below audit procedure:
 - a. Request TechLife's data protection policies and procedures.
 - b. Verify if customer consent is obtained and documented.
 - c. Evaluate data storage and access control measures.
 - d. Assess the company's response to data subject access requests.
 - e. Review compliance training for staff handling personal data.

Failure to comply could result in regulatory penalties and reputational damage, which may need to be disclosed in the financial statements.

Question 7

- a) Blockchain introduces a decentralized and immutable ledger, which can enhance transparency and traceability of transactions. For GlobalTech, this means:
 - a. Audit evidence derived from blockchain can be more reliable.
 - b. Traditional testing of transactions may shift to testing of smart contracts and blockchain integrity.
 - c. The audit team needs appropriate IT skills or specialists to understand how blockchain records are maintained and validated.
 - d. Access controls, node authority, and data inputs must be assessed for reliability.
- b) AI tools affect audit planning and risk assessment. The audit team should consider:
 - a. How AI-generated outputs (e.g., forecasts, classifications) are used in financial reporting.
 - b. Whether the AI models are appropriately governed, tested, and free from bias.
 - c. The need for explainability and documentation of AI decision processes.
 - d. Whether management overrides or errors from AI outputs could lead to material misstatements.

Auditors may need to involve data scientists or IT experts in reviewing these tools.

- c) Stated below are the benefits and challenges of using cloud-based audit tools in the audit of GlobalTech.

Benefits:

- a. Real-time access to client data and audit documentation.
- b. Improved collaboration among audit team members across locations.
- c. Automatic updates and better version control.

Challenges:

- i. Data security and confidentiality risks due to third-party hosting.
- ii. Dependence on internet connectivity and system availability.
- iii. Auditor's responsibility to assess the reliability of the service provider (e.g., through SOC reports).

The audit team must evaluate whether sufficient safeguards are in place for cloud-based systems.

- d) Audit firm/partner rotation helps maintain auditor independence and objectivity. For Global Tech:
- i. The change was required under regulatory guidelines, likely after 10 years of engagement with the previous auditor.
 - ii. Fresh perspectives from the new auditors can uncover risks or issues previously overlooked.
 - iii. However, it may also lead to transitional challenges such as lack of historical context.

Auditors must perform a robust opening balance review and communicate clearly with management to ensure a smooth handover.