

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**SKILL LEVEL EXAMINATION- PILOT QUESTIONS AND SOLUTIONS**  
**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**

As the audit senior at Kilo Matthew & Co (Chartered Accountants), you are assigned to lead the audit of Teams Agro Limited, a rapidly growing agricultural technology company. Teams Agro has recently upgraded to an integrated ERP system (Enterprise Resource Planning), replacing its manual accounting processes. The ERP system manages sales, purchases, inventory, payroll, and general ledger modules.

During the planning stage, you identified that:

- i. Transactions are initiated, authorised, recorded, and processed electronically, with minimal manual intervention;
- ii. Supporting documents such as invoices, purchase orders, and delivery notes are stored electronically. Paper copies are no longer kept;
- iii. User access controls are in place but were only recently strengthened after an internal audit revealed significant weaknesses;
- iv. Some automated controls, like credit limit checks and three-way matching (purchase order, receipt, and invoice), are active but not consistently enforced;
- v. The company outsources data backup and system maintenance to an external IT service provider; and
- vi. Management relies heavily on system-generated reports for decision-making.

Due to pressure from intense industry competition to boost profitability, Teams Agro Limited recently terminated the employment of some top executives, including the Head of IT. This decision was made abruptly, and interim IT leadership has not yet been formally appointed. You noted during your initial assessment that no formal handover process was conducted, and there are indications that administrative system passwords may not have been changed since the terminations.

**Required:**

- a. Explain four challenges auditors face when obtaining audit evidence in a fully computerised accounting environment like Teams Agro Limited. **(4 marks)**
- b. Discuss five types of audit evidence you would seek in this environment, and how you would evaluate their reliability. **(6 marks)**
- c. Describe the audit procedures you would perform to assess the effectiveness of the IT controls at Teams Agro Limited **(6 marks)**

- d. Assume that you find weaknesses in IT controls. Explain three substantive procedures you would perform to obtain sufficient and appropriate audit evidence for revenue transactions. (6 marks)
- e. Explain three potential risks to the integrity of Teams Agro Limited's IT infrastructure following the abrupt dismissal of top executives, including the Head of IT. (6 marks)

**(Total 30 Marks)**

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

**Question 2**

You are a senior auditor at Apeni Asubike & Co. Your audit team has been engaged to audit the financial statements of Top Crown Traders Limited, a large wholesale company.

During the preliminary assessment, you note that Top Crown Traders Limited has several internal control systems in place, particularly over sales, purchases, and inventory management. However, you observe that:

- i. The sales system is computerised but access controls are weak.
- ii. Purchases are approved manually, but there is no proper segregation of duties.
- iii. Inventory records are updated monthly instead of in real-time, and discrepancies are frequent.

Management believes their internal controls are strong enough that auditors can rely heavily on them and thus reduce detailed substantive testing.

As the audit team leader, you are tasked with evaluating the internal control systems and planning the audit approach accordingly.

**Required:**

- a. Identify the purpose and importance of evaluating a client's internal controls during an audit. (3 marks)
- b. Explain the steps you would take to evaluate the internal controls at Top Crown Traders Ltd. (3 marks)
- c. Describe how the identified weaknesses in Top Crown Traders Limited's internal controls would affect the nature, timing, and extent of your substantive procedures. (4 marks)
- d. Explain how an external auditor may use the results of internal control evaluation to determine whether to adopt a controls-reliant or a substantive approach. (2 marks)
- e. Display how weaknesses in internal controls should be communicated to management and those charged with governance. (3 marks)
- f. Write a Management Letter suitable for dispatch to Top Crown Traders Limited. (5 marks)

**(Total 20 Marks)**

### Question 3

You are a senior associate in a big four accounting firm. Your team has been engaged to carry out the statutory audit of Midland Bank Plc, listed on the Nigerian Exchange Group (NGX). The company recently expanded operations into seven African countries and launched a sustainability initiative aimed at reducing loan losses.

During the audit planning and preliminary evaluation, you observe the following:

- i. Midland Bank recently changed its external auditors without providing adequate justification to shareholders.
- ii. There is confusion among management about the difference between audit, assurance, and forensic services.
- iii. The internal audit function is under-resourced, and its reports are rarely acted upon by management.
- iv. The company issued a half year management report claiming 50% loan loss reduction, but no assurance was obtained on the report.
- v. Some directors believe auditors are responsible for detecting all fraud and errors.
- vi. The directors expected you to assess the company's compliance with the Companies and Allied Matters Act (CAMA) 2020, FRC Act 2011, and all relevant international standards.

#### Required:

- a. Explain the concepts of audit, assurance, and forensic services, highlighting the relationships and differences among them. (6 marks)
  - b. Identify the audit expectation gap in this case, and the reasonableness and performance gaps as they relate to directors' assumptions. (4 marks)
  - c. Explain the role of the internal audit function in the context of this case and suggest two ways its effectiveness can be improved. (4 marks)
  - d. Describe the legal and regulatory frameworks applicable to this audit engagement, with reference to the CAMA 2020, FRC Act 2023, and all relevant ISAs and IFRS. (6 marks)
- (Total 20 marks)

### Question 4

You are a senior audit manager at Eno Thomas & Co., a mid-sized accounting firm. Your firm has recently been engaged to audit TechNiche Solutions Limited, a rapidly growing private technology company that recently secured a major government contract. During the planning phase, you discover that the company's Chief Financial Officer (CFO), who was formerly an employee of your firm, is pressuring the audit team to overlook certain accounting treatments related to revenue recognition, citing "industry practice" and the need to maintain investor confidence.

An anonymous staff member within TechNiche has approached your team with concerns about possible fraudulent financial reporting and has also alleged that certain environmental regulations have been violated in one of TechNiche's overseas operations.

At the same time, your audit firm is considering bidding for a consultancy project with the Federal Ministry of Science & Technology - the same government body that awarded TechNiche its contract. There is a risk

that your independence could be perceived as compromised if the audit findings negatively affect TechNiche, and in turn, impact the firm's relationship with the Ministry.

**Required:**

Prepare a detailed report addressing the following issues:

- a. Explain the importance of professional ethics in the audit and assurance environment, using the scenario above. (3 marks)
  - b. Identify and evaluate the ethical threats to independence and the appropriate safeguards that should be applied in this situation. (4 marks)
  - c. Describe the ethical dilemmas faced by the audit team, including any potential conflicts of interest, and the actions required to resolve them. (4 marks)
  - d. Compare the governance-related ethical issues that may arise in private entities like TechNiche and public entities such as the Federal Ministry of Science & Technology. (3 marks)
  - e. Present the relevance of whistleblowing and NOCLAR obligations, and explain how your audit firm should respond to the anonymous staff report. (3 marks)
  - f. Briefly differentiate between rule-based and principle-based ethical approaches, and assess how both approaches apply to this case. (3 marks)
- (Total 20 marks)

**SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THREE QUESTIONS IN THIS SECTION. (30 MARKS)**

**Question 5**

Dedemol Pharma Plc, a large pharmaceutical firm, recently noticed discrepancies in its financial records. The company's internal audit team found that a significant amount of funds had been misappropriated over a period of three years. Suspicious transactions were linked to the company's procurement manager, Mr. Johnson Chukwu, who had allegedly been inflating supplier invoices and redirecting excess payments to his personal accounts, through his junior brother that works with the company's bankers.

An external forensic auditor was hired to investigate. The auditor conducted electronic discovery of financial records, reviewed procurement contracts, and interviewed key employees. The investigation revealed that Mr. Johnson Chukwu had created fake supplier companies and used them to siphon funds. The company is now preparing to take legal action against him.

**Required:**

- a. Explain the role of forensic accounting in identifying and investigating fraud in this case. (4 marks)
- b. Describe how economic damage caused by the fraudulent activities could be calculated in this situation. (3 marks)
- c. Give **FOUR** steps the forensic auditor should take to uncover hidden assets related

- to this fraud? (4 marks)
- d. Discuss the importance of electronic discovery (computer forensics) in this investigation. (4 marks)
- (Total 15 marks)

### Question 6

You are the lead auditor at Abel Titus & Co., a firm of chartered accountants. Your team has recently completed the audit of Grand Green Plc., a manufacturing company. During the audit, several important matters arose:

- i. The financial statements were generally prepared in accordance with IFRS, but the company faces significant cash flow difficulties that cast doubt on its ability to continue as a going concern. Management disclosed this uncertainty adequately in the notes to the financial statements. Apart from this, no material misstatements were found, and accounting policies were consistently applied.
- ii. The directors were cooperative, providing all requested information, and acknowledged their responsibility for the preparation of the financial statements.
- iii. Significant estimates were made by management regarding inventory valuation, which involved considerable judgment and were considered Key Audit Matters (KAM).
- iv. Additionally, the directors included a new note on a legal dispute that, while not affecting the financial statements materially, was important for users' understanding.
- v. As the audit leader, you must now prepare the auditor's report and advise the client accordingly.

### Required:

- a. Identify the type of audit report you would issue for Grand Green Plc. and justify your choice. (3 marks)
  - b. Explain the basic contents that must be included in the auditor's report for Grand Green Plc. (3 marks)
  - c. Explain whether an "Emphasis of Matter" paragraph or a "Material Uncertainty Related to Going Concern" paragraph would be required, and justify your reasoning. (2 marks)
  - d. Describe the Key Audit Matters (KAM) that must be included in the report and explain why they are necessary. (2 marks)
  - e. Present the responsibilities of the directors and auditors as they relate to the financial statements and the audit report. (2 marks)
  - f. Explain on how the auditor's report should be signed and what matters must be expressly stated in compliance with the Companies and Allied Matters Act (CAMA) 2020 (as amended). (3 marks)
- (Total 15 marks)

## Question 7

You are an audit senior in Eto Brant & Co., a mid-sized audit firm. The firm has recently been appointed to audit the financial statements of Sitwell Supermarkets Limited, a fast-growing chain of retail stores with 65 outlets nationwide.

While evaluating the internal control system of Sitwell Supermarkets Limited, your team identified several red flags in the internal controls, including:

- i. Sales transactions are recorded manually by store clerks, with minimal supervisory review.
- ii. Inventory is counted quarterly, but no reconciliation is done with the point-of-sale system.
- iii. The finance department, responsible for both preparing bank reconciliations and authorizing payments, is understaffed.
- iv. There is limited segregation of duties, especially in smaller outlets where one staff member handles cash, records sales, and deposits money.
- v. The company recently implemented a new ERP system, but staff training has been inconsistent and documentation of system controls is incomplete.

### Required:

As an external auditor, you are tasked with evaluating the internal control environment of Sitwell Supermarkets Limited. Based on the information provided:

- a. Identify and explain **FOUR** key weaknesses in the internal control system at Sitwell Supermarkets Limited. (6 marks)
  - b. For each weakness identified in (a), present appropriate control procedures that management should implement to mitigate the risks. (6 marks)
  - c. Explain how these weaknesses could impact your audit approach and the audit evidence you would seek. (3 marks)
- (Total 15 marks)

## SUGGESTED SOLUTIONS

### SOLUTION 1

#### a. Challenges in obtaining audit evidence in a computerized environment

Lack of physical documentation: **Traditional source documents (e.g., invoices, receipts) may only exist electronically, making it harder to inspect originals or verify authenticity.**

- i. **Reliance on system-generated data:** Auditors must assess the reliability of the system before relying on reports, requiring additional IT audit skills.
- ii. **Increased risk of unauthorized data changes:** Data can be modified without leaving a visible trail unless proper audit logs are maintained.
- iii. **Complex systems requiring specialist knowledge:** Auditors may require IT specialists to understand system architecture, automated controls, and data flow.

*(Other possible points: Outsourcing IT functions complicates audit trails; potential cyber threats affects data integrity.)*

#### b. Types of Audit Evidence and Evaluation of Reliability

Electronic documents (e.g., e-invoices): **Reliability depends on the system's access controls and audit trails. If weak, additional corroborative evidence is necessary.**

- i. **System-generated reports (e.g., sales listings):** Must test the system's reporting logic and reconcile reports with underlying data.
- ii. **Audit logs and access trails:** Reliable if controls over system access are robust and logs are tamper-proof.
- iii. **Confirmations from third parties (e.g., customer balance confirmations):** Considered highly reliable, especially if obtained directly by the auditor.
- iv. **Analytical procedures (e.g., trend analysis on revenue):** Reliable when based on high-quality input data and when expectations are precisely developed.

#### c. Audit Procedures to Assess IT Controls

Review of IT policies and procedures: **Evaluate policies on access control, backup, recovery, and system change management.**

- i. **Testing user access controls:** Check user profiles and segregation of duties to ensure that unauthorized users cannot access sensitive functions.
- ii. **Walkthroughs of key automated processes:** Trace transactions through the system to observe if automated controls (like credit checks) are properly enforced.
- iii. **Inquiry and observation:** Interview IT personnel and observe security procedures, such as password management.

- iv. **Review of outsourced service provider contracts:** Assess how backup and maintenance services are governed and if Service Level Agreements (SLAs) are adequate.

**d. Substantive Procedures for Revenue Transactions in case of IT control**

Test of details on individual transactions: **Vouch recorded sales to customer orders, dispatch notes, and payment receipts (all electronic records).**

- i. **External confirmations:** Send confirmations to major customers to verify balances and disputed transactions.
- ii. **Cut-off testing:** Check that sales transactions around the year-end are recorded in the correct period by reviewing dispatch dates and invoices.

*(Other acceptable: recalculating discounts and taxes, performing substantive analytical procedures.)*

**e. Three Potential Risks to IT Infrastructure Integrity**

**i. Unauthorised access to critical systems and data:**

- Former executives, particularly the Head of IT, may still retain knowledge of passwords, backdoor access methods, or administrative privileges.
- If system access is not promptly disabled or updated, there is a risk of data manipulation, theft, or sabotage.  
*(Risk weight: High — because IT leadership typically has elevated access rights.)*

**ii. Loss of institutional knowledge and control gaps:**

- The sudden removal of experienced personnel without proper handover disrupts continuity.
- Key system configurations, security protocols, and maintenance schedules might be undocumented or poorly understood by remaining staff, increasing the risk of system failure, vulnerabilities, and operational errors.

**iii. Weak incident response and monitoring:**

- Without an active, knowledgeable IT head in place, Teams Agro may be slower to detect cyber threats, breaches, or internal misuse.
- Lack of monitoring can allow malicious activities (both internal and external) to go undetected for a longer time, worsening potential damage.

*(Other valid points: Increased insider threats from disgruntled employees, delayed system updates/patches increasing exposure to cyber-attacks.)*



## SOLUTION 2

### a. Purpose and Importance of Evaluating Internal Controls

- i. **Purpose:**
  - To understand the client's accounting and control systems
  - To assess the risk of material misstatement at the financial statement and assertion level .
- ii. **Importance:**
  - It helps determine the nature, timing, and extent of audit procedures, allowing the auditor to design an effective audit approach

### b. Steps to Evaluate Internal Controls Understanding the System: **Obtain knowledge of the design and implementation of controls through inquiries, observation, and document inspection**

- i. **Documenting the Controls:** Prepare flowcharts, narratives, or checklists
- ii. **Performing Walkthrough Tests:** Trace transactions through the system to confirm understanding – **0.5 mark**
- iii. **Testing Controls:** Perform tests of controls to assess their operating effectiveness

### c. Effect of Weaknesses on Substantive Procedures (4 marks)

- i. **Nature:** More reliance on substantive procedures rather than tests of controls
- ii. **Timing:** Testing may need to be conducted closer to year-end rather than at interim periods
- iii. **Extent:** A greater volume of transactions and balances will need to be tested
- iv. **Additional Considerations:** More detailed and rigorous substantive procedures in sales, purchases, and inventory areas

### d. Use of Evaluation Results to Decide Audit Approach

- i. If controls are **strong and effective**, the auditor can adopt a **controls-reliant approach**, reducing substantive testing
- ii. If controls are **weak or ineffective**, the auditor must adopt a **fully substantive approach**, increasing detailed testing

### e. Communicating Weaknesses to Management and Governance

- i. **Preparation of Management Letter:** Document significant deficiencies and material weaknesses
- ii. **Recommendations:** Provide practical suggestions for improving controls

- iii. **Formal Communication:** Weaknesses must be reported to those charged with governance in accordance with ISA 265

**f. Management Letter**

(Apeni Asubike & Co – External Auditors official letter head)

**Date:** [Insert Date]

**To:** The Chairman, Board of Directors, Top Crown Traders Limited

**Subject:** Management Letter on Internal Control Weaknesses Identified During the Audit

Dear Sir,

As part of our audit of the financial statements of Top Crown Traders Limited for the year ended 31 December 202X, we performed an evaluation of your company's internal control systems relevant to financial reporting. Our audit was not designed to express an opinion on the effectiveness of internal controls; however, we are required to report any significant deficiencies observed.

During our audit, we noted the following matters requiring your attention:

**a. Weak Access Controls in the Sales System**

- i. **Observation:** The Company's computerized sales system lacks strong access controls, with several users sharing login credentials.
- ii. **Implication:** This increases the risk of unauthorized transactions and loss of data integrity.
- iii. **Recommendation:** Implement unique user IDs and passwords, enforce regular password changes, and introduce access level restrictions based on roles.
- iv. **Response:**

**b. Lack of Segregation of Duties in Purchase Approvals**

- i. **Observation:** Purchases are approved manually without proper segregation between initiation, authorization, and recording functions.
- ii. **Implication:** This could lead to unauthorized purchases and misappropriation of assets.
- iii. **Recommendation:** Establish clear segregation of duties by assigning different individuals to request, approve, and record purchase transactions.
- iv. **Response:**

**c. Inadequate Inventory Record Updates**

- i. **Observation:** Inventory records are only updated monthly rather than in real-time, and frequent discrepancies between physical and recorded inventory were noted.

- ii. **Implication:** This may lead to inaccurate financial reporting and increased risk of inventory loss or theft.
- iii. **Recommendation:** Implement a real-time inventory management system and conduct more frequent inventory reconciliations.
- iv. **Response:**

We recommend that management give prompt attention to these matters to strengthen the internal control environment and reduce financial reporting risks.

Please note that this letter is intended solely for the use of Top Crown Traders Limited's Board of Directors and management and should not be disclosed to third parties without our prior written consent.

We appreciate the assistance provided by your staff during the course of our audit.

Yours faithfully,

[Auditor's Name]

[Position]

**For: Apeni Asubike & Co (Chartered Accountants)**

[Audit Firm Address]

### SOLUTION 3

#### a. Concepts of Audit, Assurance, and Forensic Services (4 marks)

- i. **Audit:** A systematic and independent examination of financial statements to express an opinion on whether they are prepared in accordance with applicable financial reporting frameworks (e.g., IFRS).
- ii. **Assurance:** Broader than audit; involves improving the quality of information for decision-makers. It includes audits, reviews, and other engagements where practitioners express a conclusion on subject matter.
- iii. **Forensic Services:** Specialized services that involve investigation of fraud, financial crimes, or disputes, often with the aim of using the findings in legal proceedings.

#### Relationship and Differences:

- i. All three are attestation services that involve evaluation and evidence gathering.
- ii. **Audit and assurance** focus on providing confidence to users of financial or non-financial information.
- iii. **Forensic services** go beyond typical audit scope, often requiring legal admissibility and focused on uncovering wrongdoing.

#### b. Audit Expectation Gap: Reasonableness and Performance Gaps

- i. **Reasonableness Gap:** Occurs when the public or directors expect more from auditors than what audit standards require.  
*Example:* Midland directors incorrectly believe auditors are responsible for detecting all fraud and errors, while auditors only provide reasonable assurance, not absolute.
- ii. **Performance Gap:** Arises when auditors do not perform in line with professional standards.  
*Potential Issue:* If previous auditors were dismissed without transparent justification and new auditors fail to probe this, stakeholders may question the integrity of the audit process.

**c. Internal Audit Function and Recommendations (4 marks)**

**Role of Internal Audit:**

- i. Internal audit supports corporate governance by evaluating internal controls, risk management, and compliance.
- ii. It ensures operational efficiency and effectiveness and supports external auditors with independent internal assessments.

**Current weakness at midland:**

- i. Under-resourced internal audit function.
- ii. Management does not act on internal audit findings.

**Recommendations to improve effectiveness:**

- i. **Strengthen Resources:** Hire qualified internal auditors and ensure adequate budget allocation.
- ii. **Enhance Reporting Structure:** Internal audit should report functionally to the Audit Committee, not just to executive management, to enhance independence and action on findings.

**d. Legal and Regulatory Frameworks Applicable to the Audit**

- i. **CAMA 2020 (as amended):**
  - Requires statutory audits for public companies.
  - Mandates rotation of auditors every 10 years and proper disclosure to shareholders on changes.
- ii. **FRC Act 2023:**
  - Empowers the FRC to regulate accounting and auditing standards.
  - Mandates registration of auditors and audit firms, and enforces ethical and quality control compliance.
- iii. **ISAs (International Standards on Auditing):**
  - **ISA 300** – Planning an Audit.
  - **ISA 500** – Audit Evidence.
  - **ISA 700** – Auditor's Report.

- **ISA 701 – Communication of Key Audit Matters.**  
These guide auditors in conducting the audit with professional skepticism and ensuring high-quality output.
- iv. **IFRS 9 (International Financial Reporting Standards – Financial Instruments):**
  - Apply IFRS 9 especially to the expected credit loss (ECL) to determine the loan loss provisioning and impairment recognition, which is relevant to Midland's loan loss reduction claim.

## **SOLUTION 4**

### **a. Importance of Professional Ethics**

Professional ethics are the cornerstone of trust in the audit profession. In this case:

- i. The audit team's objectivity and integrity are vital for ensuring public confidence, especially as TechNiche has secured a public contract.
- ii. Ethical conduct protects the credibility of financial reporting, the audit profession, and the firm's reputation.
- iii. Upholding professional ethics ensures compliance with professional standards and regulatory requirements, which is especially critical when dealing with potential misconduct.

### **b. Ethical Threats to Independence and Safeguards**

**Threats: (1 mark each for any two points)**

- i. **Familiarity threat** due to the CFO being a former employee of the audit firm.
- ii. **Self-interest threat** from the potential consultancy work with the Ministry, which may create a perception of bias.
- iii. **Intimidation threat** from the CFO pressuring the audit team.

**Safeguards: (1 mark each for any two points)**

- i. Rotate team members with prior ties to the client.
- ii. Separate the consultancy and audit teams to prevent conflicts of interest (firewalls).
- iii. Disclose threats to those charged with governance.
- iv. Consider declining the consultancy engagement if threats cannot be mitigated.
- v. Obtain external review of critical audit judgments.

### **c. Ethical dilemmas and actions required**

**Dilemmas: (1 mark each for any two points)**

- i. Pressure to overlook irregular revenue recognition practices.
- ii. Balancing firm interests (e.g., consultancy opportunity) with audit independence.
- iii. Dealing with whistleblower allegations that may require escalation.

**Actions: (1 mark each for any two points)**

- i. Apply professional skepticism and seek sufficient audit evidence.

- ii. Consult with the Ethics Partner or an independent review board.
- iii. Document all communications and decisions.
- iv. Where necessary, consider modifying or withholding the audit opinion if irregularities are not resolved.

**d. Governance-Related Ethical Issues in Private vs. Public Entities (3 marks – 1 mark each)**

Areas of Concern	Private Entities	Public Entities
Accountability	Focused on shareholder returns, which may pressure management to manipulate results	Accountability to a broader range of stakeholders (public, parliament, etc.).
Ethical expectations	Less public scrutiny, increasing the risk of unethical behavior	Greater transparency and ethical expectations
Governance	Governance structures may be less robust	Risk of political interference in financial and operational matters

Auditors must be conscious of these differences while maintaining ethical consistency.

**e. Whistleblowing and NOCLAR Obligations**

- i. The anonymous report must be evaluated per NOCLAR (Non-Compliance with Laws and Regulations) guidance under the IFAC Code.
- ii. The firm should investigate the allegation and assess its impact on the financial statements.
- iii. If TechNiche fails to take appropriate action, the auditors may need to report the matter to external authorities, following legal and professional protocols.
- iv. Whistleblowing mechanisms protect the public interest and should be handled confidentially and ethically.

**f. Rule-Based vs. Principle-Based Approaches**

Approach	Rule-Based	Principle-Based
Limitation	Prescriptive with strict rules (e.g., ICAN's Code)	Based on broader ethical principles (e.g., IFAC Code).
Coverage	Clear-cut but may not cover every scenario.	Clear-cut but may not cover every scenario.
Complexity	Can lead to a "checklist" mentality.	Suitable in complex and evolving situations like this case.
Application	The rule-based approach would guide specific actions (e.g., mandatory disclosure).	The principle-based approach would guide the team's judgment in handling complex threats to independence and public interest

		considerations.
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## SOLUTION 5

### a. Role of Forensic Accounting in Identifying and Investigating Fraud

Forensic accounting involves the application of investigative and analytical skills to uncover financial fraud and provide evidence that can be used in legal proceedings.

In this case, the forensic accountant played a key role by:

- i. **Identifying red flags** in the company's financial records and procurement activities.
- ii. **Reviewing procurement contracts** and comparing them against actual payments and deliveries.
- iii. **Tracing financial flows**, including links between inflated invoices and transfers to Mr. Chukwu's personal accounts via his brother.
- iv. **Collecting admissible evidence** by interviewing employees and securing electronic documentation.
- v. **Documenting findings** in a structured report that can support the company's legal action.

### b. Calculating economic damage caused by the fraud

The economic damage can be assessed through:

- i. **Comparison of legitimate contract values** with inflated invoice amounts to determine overpayments.
- ii. **Quantification of payments** made to the fake supplier companies.
- iii. **Loss of interest or opportunity costs** resulting from the diverted funds.
- iv. **Additional internal costs** such as investigation expenses, legal fees, and damage to reputation.

The total damage = (Inflated invoice amounts – Fair market value) + costs related to detection and prosecution.

### c. Steps to Uncover Hidden Assets

- i. To uncover hidden assets, the forensic auditor should:
- ii. **Perform a lifestyle analysis** on Mr. Chukwu and his brother to detect spending patterns inconsistent with known income.
- iii. **Trace funds and assets** using bank statements, wire transfers, and asset ownership records.
- iv. **Use forensic data analysis tools** to detect unusual or unauthorized financial transactions.
- v. **Investigate third-party transactions**, such as purchases of real estate, vehicles, or investments registered under aliases or relatives.
- vi. **Engage legal channels** for subpoenas or court orders to access confidential banking and financial records.



**d. Importance of Electronic Discovery (Computer Forensics)**

Electronic discovery (e-discovery) is crucial in modern fraud investigations. Its importance in this case includes:

- i. **Recovery of deleted files and emails**, which may include fake supplier documentation or internal communication about the fraud.
- ii. **Analysis of metadata** to determine the origin and timing of fraudulent documents.
- iii. **Preservation of evidence** in a forensically sound manner to maintain integrity for court use.
- iv. **Tracking user activity** on company systems to uncover how Mr. Chukwu manipulated records or created false vendors.
- v. **Cross-referencing electronic records** with financial transactions for validation and proof.

**SOLUTION 6**

**a. Type of Audit Report and Justification (3 marks)**

The auditor should issue an **unmodified audit opinion** because, except for the uncertainty about the going concern (which has been adequately disclosed), the financial statements are prepared fairly in all material respects in accordance with IFRS.

However, the report must include a **"Material Uncertainty Related to Going Concern"** paragraph to highlight the going concern issue without modifying the audit opinion itself.

**b. Basic Contents of the Auditor's Report for Grand Green Plc. (3 marks)**

The auditor's report should contain:

- i. **Title:** Clearly stating it is an Independent Auditor's Report.
- ii. **Addressee:** To the shareholders of Grand Green Plc.
- iii. **Opinion:** Stating that the financial statements give a true and fair view.
- iv. **Basis for Opinion:** Reference to compliance with ISAs, independence, and ethical requirements.
- v. **Material Uncertainty Related to Going Concern:** Specific paragraph drawing attention to the note on going concern.
- vi. **Key Audit Matters:** Including inventory valuation.
- vii. **Responsibilities of Management and Those Charged with Governance:** Preparation and fair presentation of financial statements.
- viii. **Auditor's Responsibilities:** Description of auditor's duties in accordance with ISAs.
- ix. **Name of Engagement Partner** (where applicable).
- x. **Auditor's Signature, Address, and Date.**

**c. Material Uncertainty vs. Emphasis of Matter**

A "Material Uncertainty Related to Going Concern" paragraph must be included because:

- i. There is significant doubt about Grand Green' ability to continue operating.
- ii. Management has disclosed this adequately in the notes, so the opinion remains unmodified.

An "Emphasis of Matter" paragraph is not used for going concern issues where a Material Uncertainty paragraph is necessary.

**d. Key Audit Matters (KAM) and Necessity**

The inventory valuation involving significant management judgment should be included as a Key Audit Matter because:

- i. It involved complex estimates and assumptions.
- ii. It was one of the most significant matters in the audit.
- iii. It assists users in understanding areas of higher audit attention.

KAM disclosures promote transparency and enhance audit report usefulness.

**e. Responsibilities of Directors and Auditors**

Directors' Responsibilities:

- i. Preparation and fair presentation of financial statements.
- ii. Assessment of the entity's ability to continue as a going concern.
- iii. Implementation of internal controls.

Auditor's Responsibilities:

- i. Expressing an opinion on the financial statements based on the audit.
- ii. Obtaining reasonable assurance that the financial statements are free from material misstatement.
- iii. Communicating key audit matters and any material uncertainties.

**f. Signing the Auditor's Report and Compliance with CAMA 2020**

The auditor's report must:

- i. Be signed in the name of the firm (for firms) or personally (for individual auditors).
- ii. State the auditor's name, address, and professional qualification.
- iii. State the engagement partner's name if required.
- iv. Expressly state under CAMA 2020 (as amended):
  - o Whether the financial statements give a true and fair view.

- That the audit was conducted in accordance with applicable auditing standards.
- That proper accounting records were kept and proper returns received.
- Any information inconsistencies found in directors' reports versus the financial statements.

## SOLUTION 7

### a. **Identification and Explanation of Four Key Weaknesses Manual Sales Recording with Minimal Review**

There is a high risk of recording errors and potential for fraud, as sales data entered manually without supervisory review can be manipulated or misstated.

#### i. **Lack of Inventory Reconciliation**

Inventory counts are not reconciled with the point-of-sale (POS) system, which increases the risk of undetected inventory shrinkage, theft, or valuation errors.

#### ii. **Inadequate Segregation of Duties in Finance Department**

The same department prepares bank reconciliations and authorizes payments, creating opportunities for misappropriation of funds and concealment of fraud.

#### iii. **Inadequate Segregation of Duties at Store Level**

In smaller outlets, one individual handles cash, records sales, and deposits money. This concentration of roles significantly increases the risk of misappropriation and unrecorded sales.

### b. **Recommendations for Control Procedures**

#### i. **Automate Sales and Implement Supervisory Review**

Implement an integrated POS system to automate sales recording. Introduce daily or weekly supervisory checks and exception reports for review of anomalies.

#### ii. **Regular Inventory Reconciliations**

Conduct monthly reconciliations between physical inventory and the POS records. Implement variance analysis procedures to investigate discrepancies.

#### iii. **Separate Authorization and Reconciliation Functions**

Divide responsibilities between staff — for example, one employee prepares bank reconciliations while another approves payments. Introduce independent review of reconciliations.

#### iv. **Enhance Store-Level Controls and Rotation of Duties**

Assign at least two people for cash handling and sales recording. Use CCTV monitoring and regular internal audits. Periodically rotate staff duties to deter long-term collusion.

**c. Impact on Audit Approach and Audit Evidence Increased Control Risk**

The weaknesses indicate a high control risk, meaning the auditor cannot rely on internal controls and must adopt a more substantive audit approach.

**i. Expanded Substantive Testing**

More detailed testing of transactions, balances (e.g., revenue and inventory), and analytical procedures will be required.

**ii. Focus on Fraud Risk**

Weak segregation of duties and poor oversight increase fraud risk. The auditor must consider ISA 240 and incorporate fraud detection procedures into the audit plan.

**iii. Evaluation of IT System Controls**

Given the new ERP implementation, the auditor should evaluate IT general controls (ITGCs) and possibly involve IT specialists to assess system integrity and data reliability.