AUDITING AND ASSURANCE LECTURE NOTE

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NATURE AND PURPOSE OF AUDITING AND ASSURANCE

DEFINITION OF AUDITING

An audit is an independent examination and expression of an independent opinion on the financial statement by an appointed auditor in the pursuance of that appointment and in compliance with any relevant statutory obligations.

From the above definition, we could bring out the following salient points.

1. The auditor is expected to express his opinion on the financial statement before him whether it reflect true and fair position.
2. This opinion must be unbiased. Therefore integrity of the auditor is required.
3. To ensure expression of unbiased opinion, he must be seen to be independent.
4. To come up with a clean expression of opinion, he must have critically examined the books and records with his professional experience to show if they reflect the transaction correctly.
5. Matters to be addressed in the audit report are dictated by the terms of the auditors appointment and any relevant statutory and professional matters.

The word audit was coined from Latin words

* Audio :I hear,
* Audis : You hear
* Audit : He hears
* Adimus: We hear .

Therefore auditing can be said to be an act of hearing an independent view of the third party on the financial position before him

DEVELOPMENT OF AUDITING

The act of auditing has its origin from the ancient Egypt. However, auditing in the form that it is currently known now today began in sixteen century Europe. The Golden Age of Elizabeth 1 witnessed major development in international exploration and trade. There was therefore the need to present sound financial information for both investors and management on the operation of the organisation. In particular, those not directly involved in the operation of this business require summaries of transactions so as to be able to understand the position of the enterprise without necessarily going through the books and records of the organisation. There is therefore the need for a third party to authenticate the correctness of the summarized position. This is believed will give the owner a rest of mind. At this time auditing was not a statutory obligation.

One thing that is obvious about auditing is that it is an invention that arose from agency or stewardship. The management of an Organisation that operates on behalf of the owner have to render their stewardship to the owner but this statement given in form of financial report cannot be taken hard and sinker. Therefore a third party opinion is required to confirm or otherwise the position of the financial statement

In Nigeria, the companies and Allied Matters Act of 1969 can be regarded as the first comprehensive enactment that required all companies in Nigeria to have their annual financial statement audited. The company and Allied Matter Act of 1990 that replaced company acts of 1968 also deeply express the fact that company’s financial statements must be audited by a qualified accountant.

NEEDS AND PURPOSE OF AUDIT.

The need for audit arose from stewardship accounting. Most companies are run on behalf of the owners. In other words, management and owners of business are different. There is therefore the need for management to render stewardship to the owners of how they have managed the fund entrusted to them. We can draw a reference from Holy Bible in Mathew 25: 14 – 30 where the rich master while going on a far journey delivered his good (talents) to his three servants according to their capacities. One was given talents and another 2 talents while the third was given 1 talent. The first two were profitable as the double their talents and were rewarded by the master on return but the unprofitable servant was purnished and even lost the only talent that he was given to the one that was given 5 talents.

Statutorily, CAMA 1990 in the interest of the investing public provides that any company incorporated in Nigeria under the act must have their annual financial statements audited.

In summary, we can therefore say audit is needed to provide third party justification of the fair and true position of the financial statement they audit. This will give investor and potential investors ground to rely on the frinancial statement as being correct representation of the affairs of the company. This will also safeguard the money invested in the business.

AUDIT OBJECTIVES

The objectives of an audit could be stratified into two major areas namely, primary and secondary objectives.

PRIMARY OBJECTIVE.The primary objective of an audit is to enable the auditor to express his independent opinion on the fair and true position of the financial statement that he is auditing. He needs to report if the account is prepared in accordance with an applicable financial reporting framework.

In particular in respect of company audit regulated by CAMA 1990, the auditor are required to satisfy himself that.

1. That the financial statement have been prepared in accordance with CAMA 1990..
2. The financial statement are in agreement with the underlying records
3. That proper accounting records has been kept.
4. Proper returns acceptable and adequate for his audit have been received from branches not visited by him.
5. He has obtained all information and explanation which to the best of his knowledge and believe are necessary for the purpose of his audit
6. That the balance sheet shows true and fair view of the state of affairs of the company and the profits or loss account shows a true and fair view of the results of that period.

SECODARY OBJECTIVES

Many secondary objectives could be following most important ones;

1. To identify or detects an errors in the process of preparing financial statement and therefor advise management on the way of improving.
2. To identify weaknesses of the internal control in operation in the company and provide advice on how to improve the internal controls.
3. To detect errors and fraud and provide way of preventing it in future. Note however that this is not the duty of an auditor per see but that of management who is saddle with the responsibilities of protecting the assets of the company. However, if he comes across any of such errors and fraud.

APPOINTMENT, DISMISSAL AND RESIGNATION OF AN AUDITOR.

APPOINTMENT OF AN AUDITOR .

Appointment of an auditor is contain in section 357 of CAMA 1990 as amended. The auditor is expected to be appointed by members at the annual general meeting (AGM). The appointed auditor shall hold office from the conclusion of the AGM to the conclusion of the next AGM. This imply that the appointment of the auditor is for a year. However at any AGM, a retiring auditor shall be automatically re-appointed without any resolution being passed by members at the AGM unless;

1. He is not qualified for re- appointment
2. A resolution has been passed at the meeting appointing some other person instead of him or providing expressly that the retiring auditor shall not be re-appointed.
3. He has given the company notice in writing of his unwillingness to be reappointed.

APPOINTMENT BY DIRECTORS.

Naturally the auditor is expected to be appointed by the shareholders at their annual general meeting however, the directors may appoint the auditor in the following circumstances.

1. In the circumstance of appointment of the first auditor. This may be done at any time after the company incorporation but before the AGM. However, such appointment must be confirmed by the shareholders at their AGM.
2. A director may appoint an auditor to fill a casual vacancy. For instance, if the existing auditor died suddenly, or incapacitated in any form or even resign his appointment suddenly, the director may appoint another auditor to replace him. However such appointed auditor must be confirm or reappointed at the AGM by the shareholders.

REMOVAL OF AN AUDITOR.

The shareholders at the AGM could remove the auditor. It must be noted that for maintenance of auditors independence, the director has no right to remove or dismiss the auditor from office . Removal of an auditor before the expiration of his term of office requires the passing of an ordinary resolution of which a special notice not less than 28 days must have been given. The auditor is entitled to receive this resolution.

The following procedures must be followed in removing the auditor.

1. The company should send a copy of notice of an intended resolution to remove the auditor to the retiring auditor.
2. The auditor has a right to make a representation in writing to the company and this should be served on all members of the company. A letter of representation is written by the auditor to state his defense against his intended removal.
3. On receipt of such representation, the company shall notify the members of the fact that the representation has been sent to all members and to whom notice of the meeting supposed to be sent.
4. Where the resolution is received too late the auditor may request that the representation to be read out at the AGM.
5. However, representation may not be sent out or read out on the application by either by the company or any person who claim to be aggrieved by the content of the representation and the court of competent jurisdiction is satisfied that the auditor is only seeking needless publicity for defamatory matters.

RESIGNATION OF THE AUDITOR

Section 365 of Company and Allied Matters Act (CAMA) 1990 provides for the right of the auditor to resign his appointment but in doing this, he must give cogent reasons in writing. The notice of his resignation must be made in writing to the shareholders and submitted at the registered office of the company and the resignation shall be effective on the receipt of the letter or at any date specified in the letter. The letter must state the following;

1. That there is no circumstances connected with this resignation which he consider should be brought to the notice of the members or creditors
2. Provision of a statement detailing any such surrounding circumstances.

Note that failure of the auditor’s resignation letter to deal with the above facts will render the resignation untenable.

On the receipt of the auditor’s letter of resignation, such letter should be sent to the Corporate Affairs Commission (CAC). Within 14 days by the company.

Equally, all the members of the company and any other person who is entitled under the law to receive such letters must be circulated. Any aggrieved person could sue the auditor within 14 days.

The auditor could also cause the company to call for extra ordinary meeting of the company to consider the auditor’s resignation.

RULE OF CHANGE OF AUDITOR’S ENGAGEMENT.

When an existing auditor is changed to a new one, the following procedure should be upheld;

1. The new auditor in line with the professional ethics should request from the client permission to contact the old auditor if there is any professional reasons why he should not take up the appointment.
2. If the client decline this request the auditor should reject the audit assignment on ethical ground.
3. If the auditor’s request is granted by the client, the auditor should contact the old auditor in writing to demand if there is any professional reason why he should not take up the appointment.
4. If the old auditor provide professional reason and not emotional reason why the new auditor should not take up the audit appointment , such audit appointment should be decline by the new auditor.
5. However, if the old auditor did not provide professional reasons why the new auditor should not accept the audit assignment then the new auditor should take up the new audit appointment.

QUALITIES OF GOOD AUDITOR.

A good auditor is expected to possess the following qualities.

1. Independence: For an auditor to give a honest and unbiased opinion he must be independent. The auditor must not only be independent he must be seen to be independent. Though in reality total independence is almost impossible but good effort must be made to ensure independence of an auditor.
2. Competence: An auditor must be competent. He must possess requisite professional knowledge and skills necessary for his duty. To this end in Nigeria, the Institute of Chartered Accountant of Nigeria (ICAN) institute rigorous training process for intending accountant. Equally ICAN made it mandatory for accountant to be attending continuously training. This will keep them abreast of new development in their field and as a professional accountant. An auditor is expected to decline any audit where he is not competent no matter how juicy the audit may be.
3. Integrity: An auditor must bring into bear in his audit assignment a good measure of honesty, fairness and tactfulness. He must work with due care such that his opinion will not mislead other member of the public. Integrity must therefore be an overriding principle of the auditor at all times.
4. Objectivity: The auditor must be objective in his duty. In other words his opinion must not be biased. Such opinion must be supported by clear evidence. In carrying out his duty, auditor must ensure that he avoid problem created by a related person in audit.
5. Confidentiality: The auditor must be a person who could keep the information received from the client in the course of his duty. He must keep the secret of his client secret and should not divulge such information. He should not use information obtained in the course of his duty to his personal advantage or the advantage of a third party. An auditor must be able to distinguish experience gained in the course of his audit from the confidential information acquired.

AUDIT ENGAGEMENT.

An auditor in line with CAMA 1990 has a duty of care to carry out his duty competently. He should not take audit appointment which he cannot properly fulfill. Important features of good auditor / client relationship include;

1. He must understand how the business operates in terms of the strength, weaknesses opportunities and threats of the client business.
2. Reviewing the nature of market, the product and the position of the clients in the markets.
3. He must have a clear understanding of the nature of the services provided by the auditor to his client
4. He must have a clear awareness of the risk attached to the audit work.
5. He must understand what constitute the best practice in the business of the client as it relates to the auditors duty.

WHAT AUDITORS MUST CONSIDER BEFORE ACCEPTING AN AUDIT ASSIGNMENT.

Before accepting a new audit assignment the auditor must consider the following;

1. Does the firm have the capability and resources to carry out the audit assignment. This must be considered in line with

* The size , location and nature of the business of the prospective clients.
* Timing of the audit.
* The number and the level of experience of the audit staff required.
* The current commitment of the firm. If he is very busy in another audit assignment and this new one cannot wait he should not take up this new assignment.

1. The independence of the auditor. He needs to consider factors that could hinder auditor’s independence.
2. Compliance with the ethical issues on the rules guiding change of the auditor.

REASONS WHY AN AUDITOR MAY NOT ACCEPT AN AUDIT ASSIGNMENT.

The reasons why an auditor may decline an audit assignment could be classified into three . First, the practical reasons, second is the ethical reasons while the third is the legal/ statutory reasons.

1. PRACTICAL REASONS.

The following reasons could be adduced practically as reasons why auditors could reject an audit assignment;

1. If there is a disagreement between the auditor and the clients with regards to audit fees.
2. Lack of technical know-how or competence and expertise.
3. Timing. The timing set by the client for the execution of the audit and the delivery of report should be considered. Where the auditor find it impracticable to complete the audit assignment to specified time frame he should decline the audit.
4. Where the auditor lacks the required experience necessary for the audit, he should decline the audit no matter how lucrative it may appear.
5. Where the auditor has insufficient staff to carry out the audit as specified, he should decline the audit.
6. ETHICAL / PROFESSIONAL REASONS.

By the ethic of accounting profession the following condition could lead auditor not to accept the audit.

1. Where the auditor is related to an officer of the client enterprise.
2. Where the auditor has financial commitment with the client business.
3. Where the audit engagement will lead to conflict of interest.
4. Where the auditor’s independence is not guaranteed.
5. Where the audit fees is based on turnover or profit of the business. The permissible approach to fees determination is hourly rate as provided by the institute.
6. LEGAL / STATUTORY REASONS.

The following are statutory reasons t6hat could lead to an auditor to reject the audit.

1. Where restriction is placed upon the scope of the audit.
2. Where the appointment of the auditor is not in compliance with the provision of CAMA 1990.
3. Where the auditor is a body corporate.
4. Where the auditor is disqualified because he or she is neither a member of the recognised accounting body in Nigeria. The only two professional bodies recognised in Nigeria are The institute of chartered Accountants of Nigeria.(ICAN) Association National Accountant of Nigerian (ANAN).
5. Where the auditor has no practicing license.
6. Where the auditors appointment is not ratified by the shareholders at annual general meeting.

DUTIES OF THE AUDITOR.

The duties of the auditors could be classified into two major groups namely, statutory duties and fiduciary duties.

1. STATUTORY DUTIES

Company and allied Matters Act 1990 as amended in 2004 provides that ;

1. The primary duty of the auditor is the expression of his independent opinion on the financial statement before him. The report which will normally takes care of the true and fair nature of the statement of financial statement for the period, statement of profit or loss for the period and cash flow statement.
2. Schedule 6b of CAMA 2004 sets out the following matters that should be reported on;

* Whether the auditor have obtained all the information and explanation which are considered necessary for the execution of his audit assignment.
* Whether in their opinion, proper book of account have been kept by the auditor and that proper returns have been received from branches not visited by the auditor.
* Whether the company statement of financial position and profit or loss are in agreement with the books of account and returns .
* Whether in their opinion and to the best of their knowledge the account give information required by CAMA in the manner required.
* Whether in their opinion the financial statement shows true and fair position. In particular whether the statement of financial position show the true state of the company’s affair as at the end of financial year. Also in respect of the profit or loss account whether the statement shows the true profit or loss made in the period.

1. Auditors are also expected to report the affairs of all the public quoted companies to audit committee established by the company
2. FIDUCIARY DUTIES.

The fiduciary duties of an auditor is given under the common law and this include .

1. Auditor should display due care and diligence in the conduct of their duties.
2. An auditor should not delegate his authority this is because the relationship between the auditor and the shareholders is a personal one and therefore cannot and should not delegate such power.
3. The auditor should keep all information about his client confidential. In other words he should not divulge information received in the process of his audit assignment to third party.

RIGHTS AND POWERS OF AUDITORS UNDER CAMA 1990.

The company and allied matter act of 1990 as amended in 2004 confers the following rights on the auditors;

1. Section 360 gives auditor right of access at all times to the books and records of the company
2. The same section 360 also gives the auditor right to require from the company officers such information and explanation as he thinks necessary for the performance of the auditors duties.
3. Right to attend general meeting of the company and to receive notice of such meetings. He also has the right to express himself in such meeting on any matter which concern the duties of the auditor.
4. Under section 364 when there is a proposal to remove him from office he has the right to receive copy of the notice to remove him and he also has the right to make representation to the members in writing which should be dully circulated to all shareholders. However where it is not practicable to circularize all the shareholders he has the right to make physical representation.
5. He has the right to attend AGM where he is to be removed

REMUNERATION OF AUDITORS.

Section 361 of CAMA stipulates that auditors remuneration should be fixed by the shareholders in their annual; general meeting. The Auditors remuneration include his fees and other reimbursable which include incidental expenses incurred by the auditors in the course of their audit on behalf of the client.

However, the directors may fixed the auditors remuneration if it is the directors that appoint the auditor. This appointment and remuneration fixing can occur in case of appointment of the auditor for the first instance. Also director can appoint an auditor to fill the sudden vacant position.

AUDITORS STANDARD AND GUIDELINES.

Auditors standard and guidelines are normal ways and norms to follow by auditors to ensure that they perform their duties with care towards the client, members of the public and the professional institute. There are about ten standards that an auditor is expected to uphold in the course of their duties. These are;

1. Independence
2. Integrity
3. Personal Competence
4. Confidentiality
5. Advertisement
6. Directories
7. Publication by members
8. Designation i.e ACA, FCA
9. Name plates and boards.

Above personal standards will be discussed in detail.

INDEPENDENCE

This is a concept which is very fundamental to the roles of an auditor. It is an attitude of mind wholly characterized by integrity and objectivity to professional work. The concept of independence forms the corner stone of auditing philosophy. It requires that the auditor should be free from any impairment in the conduct of their work. The auditor is expected to be a man of high integrity and be willing to demonstrate transparent honesty and high degree of reliability. Because of the importance of independence to auditors both the institute and statute make provision to guarantee auditors independence.

Basic areas where independence is required are;

1. Programme Independence: The professional accountant must be able to draw his programme of event without undue interference from the client or his boss. He should be able to draw his programme as to what to check, the staff to be used etc.
2. Investigative Independence: He must have free access to the books and records required for his duty.
3. Reporting independence: He must report fairly without protecting the interest of any specific person at the expense of the other. He must not be loyal to one person. Management should not have power to overrule his judgement in any form.
4. Ethical Independence: He should follow the ethic in the conduct of his duty.

ICAN RULES TO GUARANTEE INDEPENDENCE OF THE AUDITORS

A member of the professional institute is expected to perform their duties without any form of influence from the third party. He must be in a position to give an honest and unbiased opinion. Therefore the Institute of Chartered Accountant of Nigeria ( ICAN) bearing in mind the importance of auditors independence in the conduct of their professional duties issued the following guidelines to assist the auditors to maintain independence.

1. High requirement for entry into the institute as a student and rigorous examination to train the auditors.
2. An auditor should not be a shareholder in his client company.
3. Auditor should not have blood or friendship relationship within the client company
4. Fees of the auditor should not be based on the turnover or profit of the company. This is because if the fees is based on turnover or profit any manipulation made by client would benefit the auditor as it will increase his fees and this could make him not to report such manipulation. Therefore ICAN declare that the fees of an auditor should be based on hours charged on the duty.
5. Auditor should not accept an audit assignment which contribute more than 15 percent of his total audit fees.
6. Auditor should not act in an executive capacity for its client. An auditor must not be involved in financial transaction with the client company except the ordinary activities of the company is provision of financial services such as loans provided by banks. Taking loan from client company can be a bait to render the independence of the auditors useless.
7. An auditor should not act for two opposing clients. In particular he must not act for any two opposing parties in respect of a negotiation claim or settlement unless appointed as an arbitrator under due process of law.
8. A member in public practice having acted as a receivers of any of the assets of the company should not act as auditor for the company.
9. A member must not accept any audit assignment that could lead to conflict of interest.
10. He must not accept goods and services from the client. Accepting gift and hospitality from client may lead to self-interest threat. When a firm or a member of audit or assurance team accepts gifts and hospitality unless the value is insignificant, the threats to independence cannot be reduced to an acceptable level by the application of any safeguard. Consequently, a firm or a member of the assurance team should not accept such gifts or hospitality

PROVISION OF COMPANY AND ALLIED MATTER ACT (CAMA) TO GUARANTEE AUDITORS INDEPENDENCE.

Because of the fundamental nature of the concept of independence to the profession of accountancy, CAMA 1990 stipulates some guidelines to protect their independence. As a matter of fact auditors must not only be independent but must be seen to be independent. He should not be in any relationship or circumstances which may enable members of the public to question his opinion on financial statements.. CAMA provision to guarantee auditors independence are;

1. An auditor must not be an officer of the client company
2. An auditor cannot be a business partner of an officer of the client company.
3. Auditors should be appointed by the shareholders at the annual general meeting.
4. The fees of the auditor should be fixed by the shareholders and not by the directors..
5. Auditors could only be removed from office by the shareholders and not by the directors.
6. Auditors are to report directly to the shareholders and not to the directors.. This will in a big way protect his independence.
7. Where the auditor is to be changed, he has the right to make representation at the AGM as to the reason why he should not be changed.
8. Auditor should not be a receiver in the client office.

THREAT TO AUDITORS INDEPENDECE AND THEIR RESOLUTIONS.

Ethical code of conduct issued by IFAC to guide accountants provide a comprehensive coverage of threats to auditors independence and their resolution. Specifically threat to auditors independence could be experience from the following factors;

Self- interest.

Self- review

Advocacy

Familiarity and

Intimidation.

SELF INTEREST THREAT.

This refers to a situation where the firm or a member of the audit team could benefit from a financial interest in the client office. Examples of conditions that could give rise to self- interest include;

1. Having direct financial interest or material interest in the client company.
2. Taken of loan from a client company or from any of its directors.
3. Undue dependence on fees from an individual client such loosing such client will constitute a major loss to the firm if not threaten the firm existence.
4. Having a close business relationship with an audit client or its officer.
5. Having potential employment with Client Company.
6. Contingency fees relating to the audit engagement.

SELF REVIEW THREAT

A self-review threat occurs when the auditor is auditing statement prepared by him. Examples of circumstances that could lead to self-review include;

1. A member of audit team performing a role of a director in the client office either in recent past or he is still acting as director currently.
2. A member of the audit team recently be an employee of the client company.
3. Performance of a function that affects the subject matter of the audit for the client.
4. Preparation of original data used to generate financial statement or preparation of other records that are subject matter of the audit E. g Preparation of the financial statement for the client company thereby acting as accountant

INTEGRITY AND OBJECTIVITY

A professional accountant is a person of high integrity therefore an accountant should always act with high level of integrity, honesty and probity and maintain a professional attitude in the performance of their duty. Integrity here implies honesty, fair dealing and truthfulness. He should be a man that could form his opinion on financial statement presented to him to audit based strictly on the evidence before him. In accordance to IFAC code of conduct ethics integrity implies not merely honesty but fair dealings and truthfulness. The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest and free of conflict of interest. Objectivity imposed on accountant the need to base his work on verifiable evidence. He must not be biased neither should he allow his personal views becloud his judgment when drawing conclusion. An accountant is expected to demonstrate pure objectivity in varying circumstances. Regardless of services or capacity, professional accountants should protect the integrity of their profession services and maintain objectivity in their judgment

Ethics of the profession specify that the following factors should be considered while designing objectivity.

* Pressure exerted on them which could lead them not to be objective or may impair their objectivity.
* Reasonableness should prevail in establishing standards for identifying relationships that are likely to or appear to impair a professional accountant’s objectivity.
* Relationship that could lead to prejudice, bias or influences of others and override objectivity should be avoided as much as possible. In particular auditors should be able to recognised threat to his or her objectivity and put concerted effort to forestall them.. The threat could be self-interest, advocacy threat, self-review threat, familiarity threat and intimidation threat.
* All staff involved in the audit should also display high level of objectivity in their audit conduct.
* Excessive gift that might influence the objectivity of the auditor should be avoided.

CONFIDENTIALITY.

The auditor will naturally have access to confidential information of the client. The standard of confidentiality therefore specifies that information confidential to the client acquired in the course of their professional work should not be disclosed except where consent has been obtained from the client or where there is legal right or duty to disclose. Therefore the auditor must maintain the confidentiality of the client affairs by not divorcing or disclosing any information relating to his client to the third party.

However there are certain circumstances that would compel the auditor to disclose his client’s confidential information. Such circumstances include;

1. If a competent court of law demanded for such information.
2. If a government official or any authorized person demand the information for state use.
3. If the auditor needs the information to defend himself in the case of litigation against him in court or where he wants to use it to press for his fees.
4. When the public interest is threatened the auditor may disclos3e the information if he is aware of actual or proposed criminal offences.
5. If he is aware or suspect that his client have committed treasonable felony against government the duty of disclosure is obligatory.

It is important to note that when an auditor is required to provid3e information about a client’s affairs by the police, the inland revenue or any authority, he should decline to give the information unless and until he is satisfied that there is statutory authority for demanding the information. He could seek the advice of his solicitor where necessary.

A member should not voluntarily appear in court as a witness against a client or former client unless served with a subpoena or any6 other form or witness summons. He should refuse particular question which he is not obliged to answer. He must produce any document in his ownership or possession if the court so directs.

Auditor should not make improper use of any knowledge he may gain in the course of his work. He should ensure that the staff under his control also observe this requirement.

DUE CARE SKILL AND COMPETENCE.

An auditor is expected to dispay due care, skill and competence in the discharge of his duty. This could be looked at from two major perspectives;

1. He must maintained technical competence. A member must not accept to take the appointment where he is not skilled or competent to function. The only condition in which he could take up the assignment is if he could obtain professional advice on such job which his opinion could be based.
2. Conformity with technical standard. A member should carry out his or her professional work with due skill, care, diligence and expedition and with proper regard for the technical and professional standard expected of him as a member. Every member must conform with technical standard promulgated by the institute from time to time. Every member must conform with technical standard promulgated by the Institute from time to time. The operational standard to follow include:
3. Planning, controlling and recording: It is the prerogative of the professional Accountants to adequately plan, control and record his work. The record of his work will serve as source of review of the audit as well as basis of defense in case of litigation.
4. Accounting system: The professional accountant should ascertain the company system of recording and processing transactions and access its adequacy as a basis for the preparation of financial statement.
5. Audit Evidence: The professional accountant should obtain relevant, reliable and sufficient audit evidence to enable him draw reasonable conclusion about the account.
6. Internal Control: He should evaluate the internal control in place at the clients office if he intends to rely on such. This is the whole essence of interim audit where compliance test is placed on internal control in place or in operation. Reporting Standard: This specify the principle to follow when issuing an audit report. It specify the criteria for qualifying the report. The report must be unambiguous. It should cl3early state; The financial statement being reported upon, to whom the report is addr3essed and the date of the report.

CHANGES OF PROFESSIONAL APPOINTMENT.

The client has the right to choose his auditor and other professional advisers. However, when a company changes his auditor, the professional ethics specify that the new auditor should write the old auditor demanding if there is any professional reasons why he should not take the appointment. He must seek the permission of the company to do this. If the client decline the new auditor should reject the assignment. Also if he is allowed to contact the old auditor and the latter gave valid reasons why the new auditor should not accept the audit he should equally decline the audit. The new auditor must not be a willing tool at the disposal of the client management to conceal vital information. Also the old auditor must not delay response to the new auditors request.

BASES OF THE FEES CHARGED

The Institute has advised that a member is entitled to charge for his or her services;

1. Such specific fees as he or she has agreed with the client
2. A fee calculated in accordance with any agreement with the client
3. In the absence of an agreement, a fee calculated by reference to the custom of the profession or in accordance with regulations of the institute in force at the time the fees were charged.

In the event that the fees has not been agreed with a client, the member are enjoin to charge their fair and reasonable fees having regards to the following.

* The seniority and professional expertise of the persons necessarily engaged on the work.
* The time expended by each staff.
* The degree of risk and responsibility which the work entails
* The priority and importance of the work to the client together with any expenses properly incurred.

Auditors should not accept any job where the fees is payable on condition laid down by the client or where fees is based on certain percentage of the turnover or profit. This is why the institute of chartered Accountants of Nigeria specifies fees to be charged on hourly work by different categories of audit firm. The guide line is the minimum hourly rate in respect of the professional services below which members are not ordinarily expected to charge. It is the bench mark.

PERSONAL COMPETENCE.

The professional accountant must be seen to be competent. The institute ensure this by the basic requirement for qualification as a student member and the rigorous examination that a student is subjected to pass before he becomes a qualified accountant. Even after qualification, accountants are expected to upgrade themselves by attending various training organized by ICAN and its affiliates. This is just to ensure that the professional accountants are abreast of the happening in the profession.

NAME AND LETTER HEDED OF THE PRACTICING FIRMS.

The practicing form can only adopt the name or combination of names of the firm partners. This is why the practice can not be a company (body corporate) but a partnership. This is to ensure that the partners are directly liable for the misconduct of the firm. The name should include ‘’ Chartered accountants) 3e.g. Kayode Adeosun & Co chartered Accountant, Emmanuel Olusuyi Ajayi & Co Chartered Accountants, Akintola Williams & co Chartered Accountants just to mention few.

ADVERTISEMENT.

Professional accountants in practice are not allowed to advertise either in the newspaper, by way of bill board or signboard or any other medium of advertisement.

DESIGNATION.

Members are allowed to use Associate Chartered Accountant (ACA) or Fellow Chartered Accountant (FCA) after their names for ease of recognition of tittrle.

ENFORCEMENT OF ETHICAL STANDARD.

This apply to all members as laid down by ICAN Act of 1965 which confer on the institute the right to bring erring members to the disciplinary tribunal for adjudication. The procedure is as stipulated below;

1. Where a complaint is received by the institute alleging a member of misconduct, the investigating panel shall be constituted. The investigating panel shall instruct the alleged member to furnish his defense to the disciplinary tribunal within 14 days for members reside3nt in Lagos or 21 days for members resident outside Lagos.
2. If the member refuse to send the defense within the stipulated period, a letter of reminder is sent to him to be responded to within 7 days with a warning that non reply will be tantamount to contempt of the institute and this is sanctionable (1st and 2nd reminder).
3. If the member fails to respond after the second reminder, a formal charge of contempt shall be preferred against him or her before the disciplinary tribunal.
4. If having considered the facts before it and any representation made by the member, the panel is of the opinion that in all circumstances these facts amount to misconduct, the panel will prefer a formal complaint to the disciplinary tribunal for series sanctions against the member.
5. It is the tribunal that will impose the sanction based on the advice but this is subject to right of appeal.
6. A member in accordance to section 12(5) of ICAN Act of 1965 may appeal to the court of appeal if dissatisfied with the judgment of ICAN disciplinary tribunal.

CONFLICT OF INTEREST.

Two types of conflict of interest could occur here namely conflict between firm and client interest and conflicts between the interest of different clients.

1. Conflicts of interest between client and the firm: Here the should not accept or continue an engagement in which there is or likely to be a significant conflict of interest between the firm and its client.
2. Conflict of interest between different clients: An auditor is not expected to serve two opposing clients.

OPERATIONAL STANDARD

This is the 5 paragraph standard that comprises the following;

1. Accounting System: The auditor should ascertain the company system of recording and processing transactions and access its adequacy as a basis for the preparation of financial stateme3nt.
2. Controlling and recording: the auditor should adequately plan, control and record his work.
3. Audit Evidence. The auditor should obtain relevant, reliable and sufficient audit evidence to enable him draw reasonable conclusion about the financial statement.
4. Internal Control: If he intends t rely on any internal control, he should ascertain and evaluate these controls and perform compliance test on their operation
5. Review of financial Statement: In addition to compliance and substantive test the auditor should carry out a review of the financial statement to give him a reasonable basis for his opinion on the account.

INTERNAL CONTROL SYSTEM.

Internal control is the whole system of control accounting or otherwise established by the management in order to carry on the business of the enterprise in orderly and efficient manner, to secure adherence to management policies, to safeguard the assets and as far as possible ensures the completeness, accuracy and validity of records. Internal control system comprises the control environment and control procedures. It includes all the policies and procedures adopted by the directors and management of an entity to assist in achieving their objective of ensuring as far as practicable the orderly and efficient conduct of its business.

From the above definition, it could be observed that internal control is an arrangement of client management to ensure smooth operation of business so as to achieve corporate strategic goal. How then does it relates to auditor? Paragraph 4 of Auditors Operational Guidelines (AOS) stipulates that for auditor to rely on the internal, he has to ascertain record and perform compliance test on these controls. This is the duty of auditors during interim audit which is purely compliance test.

As part of the planning of an audit, an auditor should;

1. Obtain an understanding of the accounting and internal control systems sufficient to plan his audit and developed an effective audit approach. An auditor should not just observed internal control in the client office, he must assess its adequacy to control the risk inherent in the business as well as ensuring that it is working as intended.
2. Use professional judgement to assess the component of the risk and design procedure to ensure it is reduced to an acceptable level.

ELEMENT OF RISK IN AUDIT.

Audit Risk: This is the risk that an auditor may give an inappropriate audit opinion on financial statement laid before him to audit. This audit risk has three components namely;

1. Inherent Risk: This is the risk that an account balance or class of atransaction is susceptible to material misstatement, either individual or when aggregated with misstatement in other balances or classes regardless of related internal controls.
2. Control Risk: This is the risk that a material misstatement could occur in account balances or class of transaction either individually or when aggregated with misstatements in other balances or classes without being prevented detected or controlled on timely basis by the accounting and internal control system that is in operation in the company.
3. Detection Risk: This is the risk that auditors substantive procedures (the test of details of transactions and balances) would not detect a material misstatement that exist in an account balances or class of transactions either individually or when aggregated with misstatements in other balances or classes.

TYPES OF INTERNAL CONTROLS.

The various types of internal control in existence in a typical organisation could be captured with the acronyms ‘’PAPAMOSS’’

P: stands for physical control. This stipulates that the assets of the business must be kept physically secured and this is particularly important in respect of portable valuables (Small assets with high values) such as cash balances which must be kept in safe under lock, Cars and motor vehicles parked at secured garage, stock held in secured warehouse etc.

A: Authorisation and Approval: This required that a document in process should be authorized by a responsible person within the clearly defined limitation of responsibility.

P: Personnel: These controls are developed to ensure that staff allocated to a given duty are capable and sufficiently motivated to ensure that they carry out their duties efficiently and with complete integrity.

A: Arithmetic and Accounting: These controls are such designed to ensure that transactions are correctly calculated, recorded and processed. It is controls that ensure that errors are eliminated or reduced to the barest minimum.

M: Management Controls: These are controls outside the day to day routine control system. This may include internal audit that help to check compliance of staff to the internal control put in place by management or the use of budget which set a standard for operation for the year. This budget will be compared with the actual with a view to establish the source(s) of any6 variance(s) noted.

O: Organisational control: A plan of an organisation should exist and this must clearly define and allocate responsibilities as well as identifying lines of reporting. It is important that every employee should know precise power delegated to him or her and to whom he or she should report.

S: Supervisory Control: These are controls exercise by higher levels of management on those under them or their subordinate. They are not necessarily part of day to day internal checks but are designed to ensure that the company is operating as int3ended.

S: Segregation of Duties: This control ensures that no one person is responsible for all aspect of a transaction. It ensure that no single staff can initiate and complete a transaction on his own. The involvement of more than one individual reduces the risk of accidental error or deliberate fraud except the staff connived to perpetrate the fraud which is almost very difficult.

AUDIT OF INTERNAL CONTROL OR SYSTEM BASED AUDIT.

The audit approach involved here is the compliance tests. For small companies or big companies where there are no adequate internal control system, the auditor performs only substantive test. The main features of the audit of internal control system are;

1. For a new client, ascertain the internal control which exist in operation by enquiring from management , inspection of records, observation of procedures etc. however for an existing clients the procedure should be updated to reflect the current situation.
2. Ascertain the correctness of the internal control system by carrying out walk- through test.
3. Record the control by narrative note, internal control questionnaire and system flow chart.
4. Evaluating the controls to determine whether they are satisfactory in principle. In other words the auditor should evaluate the internal controls in operation to ensure if they will be able to prevent the inherent risk in the system which is the main purpose of instituting the internal.
5. Testing the control by the conduct of compliance audit test to determine whether the controls are operating in practice as intended by the management. Specific way of testing compliance to internal controls are;
6. Corroborative enquiries about and observation of internal control functions.
7. Inspection of documents supporting controls or events to gain audit evidence that internal controls have operated properly, for example, verifying that a transaction has been authorized or a reconciliation approved.
8. Performance of control procedures, for example reconciliation of bank accounts to ensure they were correctly performed by the entity and
9. Testing of the internal controls operating on specific computerised applications or over the overall information technology function for example access or programme change controls
10. Reporting weaknesses in the internal control to the management via management letter. The report could be in form shown below.

|  |  |  |  |
| --- | --- | --- | --- |
| WEAKNESSES | EFFECT ON FINANCIAL SYSTEM | RECOMMENDATION | MANAGEMENT RESPONSE. |
|  |  |  |  |

HOW TO REPORT INTERNALCONTROL SYSTEM

There are several ways of recording internal controls in an organisation for easy assessment and review. These include;

1. Narrative notes which is documentation of internal control weaknesses. The information generated from enquiry and observation is written down on working paper. This could be pattern as shown below;

ADVANTAGES OF NARATIVE NOTES.

1. It is relatively easy to carry out.
2. It saves audit time.
3. It reduces the complex nature of flow charting to a simple understandable notes.

DISADVANTAGES OF NARATIVE NOTES.

1. It may not be detailed enough .
2. Conrol area may not be apparent
3. It is not easy to comprehend the system of a complex nature on a page after page note.
4. It is most suitable for small client
5. FLOW CHARTING: This is the pictorial representation of the internal control system. It is the most effective method of recording complex system.

ADVANTAGES OF FLOW CHARTING.

1. The diagrammatic representation of a complex system makes it easier to understand than narrative notes.
2. It shows the movement of document or communication line which can easily be understood by audit staff not previously involved in the audit.
3. It forces audit staff to obtain real understanding of the internal control system.
4. Because flowchart reveal the use to which all documents and records are put, they often reveal documents that are unnecessary.
5. It clearly shows where documents are filed for ease of access by audit staff.
6. It assist in the orderly preparation of audit programme.
7. It is useful as a basis on which management letter would be written.
8. They are useful to partners and managers during audit review.

DISADVANTAGES OF FLOW CHARTING

1. The cost involved may well outweigh the benefit envisaged if used for small client.
2. Flow chart do not indicate all the internal controls in operation especially the physical control.
3. It waste a lot of audit time during preparation.
4. Difficulties in the amendment of flow chart especially when there are changes.
5. Unless great care is taken, there is a danger that only the person who has drawn the flow charts will understand it
6. INTERNAL CONTROL QUESTIONNAIRE (ICQ): This involve generating information about the internal control and information by asking detailed questions. The ICQ is the largest established assessment technique. The following points should be noted while while designing an ICQ;
7. For a new client, a blank ICQ should be designed and completed
8. A completed ICQ should have a life span of 5 years.
9. The ICQ should be completed by a senior member of the audit staff.
10. The answers to the questions in ICQ should be corroborated by audit staff through observation of procedure and inspection of records.
11. The question in an ICQ should be straight forward and require only yes or no responses.
12. INTERNAL CONTROL EVALUATION QUESTIONNAIRE (ICEQ): This is similar to the ICQ. The evaluation of internal control is fundamental to an audit. It is on the basis of this evaluation that the auditor determines;
13. The nature of the audit and the extent of the audit procedures.
14. Draft the Letter of weaknesses drawing the attention of management to the weaknesses in their whole system.

ICEQ shows the overall strength of the controls by asking key questions which indicates;

1. Whether controls exist which will meet a specified overall controls objectives
2. Whether they are controls which prevent or detect particular or specified errors or omission.

The use of internal control evaluation questionnaire only indicates whether there are weaknesses or not in the system without indicating the significance or materiality of the issues involved. The ICEQ ask control questions instead of general question.

ADVANTAGES OF INTERNAL CONTROL EVALUATION QUESTIONNAIRE.

1. It points the attention of the audit staff to matters most fundamental to controls in the areas under review.
2. Material and nonmaterial errors are distinguished.
3. The completed ICEQ assist in planning the extent of the detail test to be carried out and enhances the writing of letter of weakness.

REPORTING TO MANAGEMENT.

It is important that the auditor should report on any material weaknesses which come to his attention during the course of his audit. Such a report is commonly called a domestic report, letter of weaknesses or management letters. Before the letter is written it is expected that the auditor complete the working papers known as a record of control weaknesses.

EXAMPLE

|  |  |  |  |
| --- | --- | --- | --- |
| WEAKNESSES | EFFECTS ON FIN. STATEMENT | RECOMMENDATION | MANAGEMENT RESPONS3E |
| Payment Vouchers raised, approved paid and posted by single staff | Material loss and misrepresentation of financial statement | Segregation of duty to be observed | To be actioned in future. |

TYPICAL EXAMPLE OF MANAGEMENT LETTER.

DATE

The Managing Director,

Dream Merchant Bank,

Victoria Island, Lagos.

Dear Sir,

INTERNAL CONTROL WEAKNESS.

We have carried out a review of the company’s internal control system established by management in order to carry on the business of the enterprise in an orderly and efficient manner, to ensure adherence to management policies, to safeguard the assets and to secure as far as possible the completeness , accuracy and validity of records.

We wish to point your attention to the fact that we can only report on those weaknesses that came to our attention or notice during the audit. Hence we emphasise that design and maintenance of adequate internal control system is the sole responsibility of management. However we wish to point out the following weaknesses:

1. Approval of journal; vouchers : we observed that all the journal vouchers raised during the month of April 2019 were raised, approved, paid and posted to the ledger by the ledger clerk. We advise that segregation of duties should be observed in their process in order to reduce any fundamental loss that may arise from this practice.

If you require further information or clarification please feel free to contact us.

Yours faithfully,

Abbey Wonders & Co. Chartered Accountants

Lagos.

SOME EXAMPLES OF INTERNAL CONTROLS IN SPECIFIC AREARS

INTERNAL CONTROL OVER CASH/ PETTY CASH

RISK .

The various risks associated with cash transactions are;

1. Theft of cash. The fact that cash could be stolen.
2. Teaming and lading. The fact that cash freshly collected could be used to cover past cash position.
3. Payment of cash for goods and services not received.
4. Improper payment. There could be overpayment.
5. Recording error.
6. Receipt of fake currency.

SPECIFIC CONTROLS.

Specific controls that could be exercised over cash transactions are;

1. Cash should be received and paid at a specified location. I. e. cash office.
2. The cashier should be independent of those responsible for sales, invoicing, maintenance of accounting records and banking.
3. Petty cash fund should be maintained on an imprest basis.
4. There should be a policy specifying the nature and limit of expenses payable from cash.
5. Cash should be under a specify person who has authority to hold it for safe keeping (cashier).
6. Request for cash payment must be authorized by appointed person other than the cashier.
7. Request for cash payment must be made on standard cash payment voucher.
8. Cash vouchers should be prepared in ink,, written in both letter and words and must be supported with valid documents such as invoices. Such petty cash voucher must be signed by the beneficiary.
9. Paid cash vouchers should be crossed with an inscription paid to avoid its being represented for payment.
10. Cash vouchers should be serially pre-numbered.
11. Cash vouchers should be serially recorded in the cash ledger regardless of whether they were cancelled or not
12. Receipts should be issued for all cash received and customers should be encouraged to obtain receipts for all payments.
13. Receipts must be serially pre-numbered and should be in copies even as they must be well guided.
14. The issue and returns of cash security documents such as receipts and cash vouchers must be well regulated and guided and this must be reviewed by a responsible senior officers periodically to ensure accountability.
15. There must be an independent surprise check on cashier periodically. Any surplus noted during such check should be receipted for while shortages should be paid by the cashier. Such variation should also be investigated. There should be daily reconciliation of cash in the till with cash balances by responsible senior officer.
16. Adequate procedures such as usage of safe should be established over cash with the cashier.
17. Cash office should be protected as no unathorised person should have access to cash office.
18. All cash received should be banked intact.
19. Adequate cash insurance policy should be taken over cash operation.
20. All cash advances should be accounted for within a reasonable time.

CONROLS OVER BANK TRANSACTIONS.

RISKS OVER BANK TRANSACTIONS.

There are several risks inherent in bank transactions. These risks among others are;

1. Cheques forgery.
2. Payments for services and goods not received.
3. Incorrect recording of bank transactions.
4. Payment without proper authorization.
5. Teaming and lading.
6. Loss of cash in transit.
7. Misappropriation of amount within the bank.

SPECIFIC CONTROLS OVER BANK TRANSACTIONS.

The specific controls that could be mitigated against bank transactions are;

1. Cheques should be signed only by appointed responsible officials.
2. There should be at least two signatories over any issued cheque.
3. Cheque booklets should be properly recorded and kept by a responsible officers. Issues out of the cheque booklet should be properly documented and in chronological order.
4. Request for cheque payment should be on a standard cheque payment vouchers form.
5. Cheque payment vouchers must be supported by valid documents such as invoices
6. Cheque payment vouchers must be approved by responsible officer before it could be honoured for payment.
7. All cheques payment vouchers and support documents must be crossed and labeled paid so as to prevent its representation.
8. Signing of blank cheques should be prohibited as it could be a conduit for fraud.
9. Procedures should be established to confirm cheques with the bank before they are honoured. There should be register for all cheques payments detailing date of issue, cheque number, beneficiary and his signature as well as the amount.
10. All cheques payment should be crossed cheques only payable to beneficiary account and not to cashed across the counter.
11. Bank paying – in slips should be prepared by person who has no involvement in cash collections or payments and who has no access to purchases or sales ledger.
12. Adequate security arrangement such as the use of the services of security agencies should be encouraged to safeguard cash in transit to the bank and from the bank.
13. Copy of the bank deposit slips which have been properly authenticated by bank officials should be kept for future references.
14. There should be periodic bank reconciliation to identify timing difference between time of banking and when it actually reflected in the statement. Any variation should be investigated and followed up. Also a responsible officer with sufficient authority to take appropriate action on unusual items should review the bank reconciliation statements.
15. Adequate insurance cover should be taken over the risk of cash losses.
16. Bank balances should be confirmed periodically by an independent staff who has no involvement with collections, payment and recording.
17. Bank statement should be sent directly to the official responsible for bank reconciliation with specified procedure to ensure that it is not intercepted by an unathorised person.

INTERNAL CONTROLS OVER NON CURRENT ASSETS.

RISK.

The following risks are associated with non-current assets;

1. Loss through natural disaster such as flood, earthquake, fire etc.
2. Unathorised purchase and disposal of the non-current assets.
3. Break down of fixed assets and consequent halt of business activities.
4. Misappropriation of non-current assets.
5. Incorrect valuation of fixed assets.
6. Theft and misappropriation of proceeds on disposal of fixed assets.
7. Use of non-current assets for unathorised purposes

SPECIFIC CONTROLS OVER NON\_CURRENT ASSETS.

The following specific controls could be placed upon non-current assets of an organisation;

1. Capital expenditure on procurement of non-current assets should be subjected to strict authorization procedures.
2. Disposal of non-current assets should be properly authorised and recorded.
3. Adequate procedures such as the use of locks and passwords should be established to prevent unathorised usage of non-current assets.
4. Non-current assets should be under the custody of a responsible person.
5. Access to and use of non-current assets should be made only on proper authorization.
6. A record should be kept of the uses of non-current assets, and responsible person should review this logbook. Any unathorised use of the non-current assets must be promptly investigated and appropriate action taken.
7. Non-current assets should be kept under a conducive atmosphere. equipped with smoke and dust detector, firefighting facilities as well as humidity and temperature recorder as may be necessary.
8. There should be standard maintenance policy over non-current assets.
9. Adequate back up facilities such as alternative electricity generator should be installed in case of contingency.
10. Adequate insurance policy should be over the non-current assets.
11. A non-current asset register should be put in place and maintained by a person independent of those responsible for maintaining the non-current assets ledger.
12. Non- current assets should have a unique identification number.
13. There should be a periodic and independent reconciliation between the non-current assets register, control accounts and the non-current assets ledger balances
14. There should be an independent regular physical verification of non-current assets.
15. An authorized person in a secured location should keep the non-current assets.
16. There should be a periodic inspection of the documents of non-current assets to ensure unathorised transfer or pledge.
17. Depreciation policies which accord with recognised and acceptable accounting standards should be established over non-current assets.

CONTROLS OVER STOCK AND WORK IN PROGRESS.

RISKS.

The following are the associated risks over stocks and work in progress;

1. Misappropriation of stock.
2. Theft of stock item.
3. In correct valuation of stock and work in progress.
4. Loss of stock and work in progress through fire, evaporation and deterioration.
5. Incorrect recording of warehouse transaction.
6. Loss in the value of stock due to expiration and obsolescence.

SPECIFIC CONTROLS OVER STOCK AND WORK IN PROGRESS.

The following specific controls could be exercised over sock and work in progress.;

1. Access to the store should be restricted to only authorized persons.
2. Experienced and skilled storekeeper should be employed.
3. Stocks should be properly labeled for easy identification.
4. Facilities including firefighting equipments, temperature and humidity recorders, smoke and dust detectors should be properly installed to regulate weather for the stock items.
5. Issues out of stock should be made with only presentation of a dully authorized stock requisition forms.
6. The issue and returns of stock should be properly recorded by the store keeper in the bin cards.
7. Stock return notes must be issued for all stocks returned to the store and this will be backup document for its entry in the bin card.
8. Appropriate stock management policies must be put in place for the stock items. This will include; Setting up of minimum and maximum stock level, establishment of re-order quantities etc.
9. There should be periodic surprise stock counts by independent persons and shortages or surpluses revealed should be properly investigated and action taken.
10. Adequate insurance policy should be taken over stock and work in progress.
11. There should be proper segregation of duties between the functions of store keeping and maintenance of stock ledgers as well as sales clerks.
12. A standard policy should be established for the valuation of stocks and work in progress.

INTERNAL CONTROLS OVER SALES AND ACCOUNTS RECEIVABLES.

RISKS.

The following risks are prevalent over sales and receivables;

1. The risk that sales of goods and services on credit could be made without proper authorisation .
2. The risk that credit sales of goods and services could go bad.
3. The risk of sales without sales invoice.
4. The risk of non-collection of amount due in respect of sales.
5. The risk of misappropriation of collections.
6. The risk of errors in invoicing and granting of credits.
7. The risk of incorrect , incomplete and invalid recording

SPECIFIC INTERNAL CONTROL OVER SALES AND ACCOUNTS RECEIVABLES.

The following specific control should be established over sales and debtors;

1. The number of persons authorized to take orders should be restricted and clearly defined.
2. Customers’ orders should be evidenced in writing and revised and approved by persons independent of the dispatch section.
3. Standard sales order forms should be used to record sales orders.
4. Dispatch of goods should be made only against approved sales order forms.
5. Access to the store and dispatch areas should be restricted.
6. All dispatches should be recorded on standard Goods Dispatch Notes (GDN) and should be signed by the customers as acknowledgment of receipt.
7. Prices and discount rates should be set in advance and price lists should be properly maintained.
8. Invoices should be raised promptly in respect of goods delivered to customers. This invoice must be pre-numbered, safeguard and used chronologically.
9. Invoices should be coded as to product type, geographical areas etc to facilitate sales analysis.
10. Customers should be given unique account numbers and these numbers entered on sales invoices or credit notes as the case may be.
11. There should be a periodic and independent matching of sales order, GDNs and invoices.
12. Appropriate control accounts should be maintained by persons independent of the person maintaining customers account.
13. The amount posted to general ledgers should be taken from sources independent of accounts receivable department.
14. Entries in account receivables should be generated only from approved documents.
15. Trial balances of accounts receivables ledgers should be prepared on a regular basis, agreed to general ledger control accounts and proper age analysis of the debtors balances done.
16. A person not involved in the posting of entries should review accounts receivable ledgers.
17. Customers statements should be obtained regularly and should be mailed by persons not involved in dealing with cash receipts.
18. Persons not involved in cash collections should deal with customers queries regarding accounts differences.
19. Invoices and credit notes should be checked for
20. Credit notes should be issued only where there is adequate evidence of a proper reason.
21. A responsible officer should be in charge of authorization of credit notes.
22. Credit notes should be in standard forms and they should be pre-numbered and accounted for chronologically.
23. There should be overall inventory movement reconciliation in terms of quantity and value.
24. Gross margin should be reviewed regularly.
25. Inventory records should be updated promptly for dispatches and returns.
26. Customers credit worthiness should be established before credit is granted.
27. Credit limit should be established for all customers and this limit must be approved by responsible officer.
28. Account receivable ledger should be regularly reviewed to ensure that credit limits have not been exceeded.
29. Procedure for identifying doubtful debts should be established,
30. Overdue debts should be urgently chased.
31. Specific provision for doubtful debts should be made in line with provision of prevailing accounting standard.
32. All bad debts written off should be properly authorized.
33. Persons independent of billing and accounts receivables should process cash remittances by customers.
34. There should be proper custody over collections until they are banked. Sales men should not collect and issue receipts to customers as this is the duty of the cashier.
35. Receipts should be issued for all remittances received from customers.
36. Collections must be banked promptly.

CONTROLS OVER PURCHASES AND ACCOUNTS PAYABLE.

RISKS.

The following are risks that purchases and account payables are susceptible to;

1. Risk of purchase of goods and services without authority.
2. Risk of purchase of goods and services not required by the organisation
3. Risk of purchase of goods and services wrongly. These may include buying from the wrong source in the wrong quantity and at wrong prices.
4. Risk of receipts of wrong goods and services from suppliers.
5. Risk of wrong payment for goods and services not received by the enterprises.

SPECIFIC INTERNAL CONTROLS OVER PURCHASES AND ACCOUNTS PAYABLES (CREDITORS).

The following controls could be placed over purchases and accounts payables;

1. Purchases should be made based on standard purchases requisition dully authorized.
2. Purchases requisition form should be pre-numbered and shall be properly safeguarded.
3. There should be a proper segregation of duties between the functions of; purchasing, receiving, recording of accounts payables and maintenance of inventory.
4. Standard purchases order forms showing names of suppliers, quantities ordered and price should be used
5. Standard purchases order should be serially pre-numbered and used chronologically for ease of review.
6. Copies of standard purchases order forms should be retained.
7. Responsible person should be appointed to be in charge of authorization of these purchases order.
8. Record should be kept of orders placed but not executed. This is to prevent payment of orders not executed.
9. Goods from suppliers should be inspected on arrivals as to the quantity quality and conditions by team of storekeepers, security, and purchases managers.
10. Receipts of supplies should be recorded on goods Received Notes (GRN) which must be serially pre-numbered.
11. GRNs should be prepared by a person independent of those responsible for ordering functions and processing and recording of invoices.
12. Invoices received should be compared with purchases orders and compared with GRNs checked for prices and not for calculations, extensions and additions.
13. The review of invoices as above should be carried out by persons independent of those responsible for ordering receipts control and custody of goods.
14. Purchases ledger personnel should be independent of those responsible for approving invoices / credit notes and cheque payments.
15. The person maintaining the control account should be independent of the purchases ledger personnel.
16. Creditors balances in purchases ledger and the control accounts should be reconciled periodically.
17. Suppliers statements should be obtained and reconciled with the ledger by an independent person.

INTERNAL CONTROLS OVER INVESTMENT AND INVESTMENT INCOME.

RISKS.

The following risks threaten investment and investment income;

1. Risk that an investment could be purchased without due authorization.
2. Risk that an investment could be transferred or disposed without proper authorization.
3. Risk of incorrect valuation of investments.
4. Errors in the recording of investments
5. Risk of misappropriation of investment income.

SPECIFIC INTERNAL CONTROL OVER INVESTMENT AND INVESTMENT INCOME

The following specific controls could be exercised over investment and investment income;

1. Responsible officer should be in charge of authorization of purchases and disposal of investment.
2. Standard criteria should be established for the evaluation of investments before purchases is made. Existing investments should be reviewed periodically.
3. A register of investment should be maintained to record details of the enterprises investments.
4. Title documents to investment such as share certificate and debenture certificates should be kept in a safe where access to them are restricted.
5. There should be segregation of duties between person in charge of authorization of investment, persons maintaining investment register, persons maintaining general ledger and person in charge of safe keeping of investment title documents.
6. There should be an independent and regular inspection of the title documents to ensure their completeness and continued existence.
7. There should be an independent and regular reconciliation of the investment register to general ledger balances. Discrepancies noted must be promptly and thoroughly investigated and corrective actions should be taken.
8. A standard policy should be established for the valuation of investment and investment write offs or write downs must be properly authorized by responsible appointed persons.
9. Investment income receivables should be pre-listed and the list used as a basis for monitoring subsequent collections. Persons independent of the collections section should prepare the list of investment income receivables.
10. Provision for or the writing –off of, investment income receivables should be authorized by a responsible appointed person.

INTERNAL AUDIT

This is an element of internal controls system set up by the management. It is an independent appraisal unit within the organisation set up to examine, evaluate and report on accounting and other controls on operation. The APB statement of auditing standard 500 describe internal audit as an appraisal or monitoring activity established by management and the directors for the review of the accounting and internal control systems as a service to the entity.

FUNCTIONS OF INTERNAL AUDIT.

It is important to know that the roles of internal audit is determined by management and directors who set its objectives. The scope and objectives of internal audit vary widely and depend on the size and structure of the entity and the requirem3ents of its management and directors. The internal audit functions vary according to the requirem3ents of management and the directors and generally less emphasis is placed on materiality consideration. Specifically the internal audit department performs the following functions.

1. Review of accounting system and internal control. The establishment of adequate and workable accounting internal controls system rest squarely on management. Often internal audit is assigned specific responsibility for reviewing the design of the systems, monitoring their operation and recommending improvements thereto. The review is to ensure the adequacy of the controls to mitigate the suspected risks.
2. Assist in the Implementation of the new accounting system: Since the internal auditor is expected to be a professional verse in accounting knowledge he is expected to provide a guide on how to successfully implement the new system.
3. Examination of financial and operating information for management. This may include review of the means used to identify, measure, classify and report such information and specific enquiry into individual items including detailed testing of transactions, balances and procedures.
4. Review of the economy, efficiency and effectiveness of operations. An auditor is expected to be verse on economic issues and should be able to review the economy and determine how it affects the organisational operation and thus render valuable advice. He also review compliance with laws, regulations and other requirements including appropriate authorization of transactions.
5. Review of the implementation of the corporate policies, plans and production. As the eyes of the management, auditors are expected to ensure that all policies put in place by management are adhered to and to ensure compliance of operation as stipulated by the management.
6. Details test of transactions and balances. This is to ensure the accuracy of all balances in the books of account and the essence is to ensure that the financial statement present an accurate information.
7. Ensuring compliance with government fiscal and monetary policies. Internal auditor is expected to review compliance with laws, regulations and other external requirements and with internal policies and directives and other requirements.
8. Conduct of special investigation into particular areas such as suspected fraud, Error in operational system etc.

INTERNAL AND EXTERNAL AUDIT COMPARED.

The internal and External Audit function could be compared along this line;

1. Degree of Independence of the Auditor: The internal auditor is not independence of management as management influences their functions to a certain extent. On the other hand external auditors are expected to be independent of company management. As a matter of fact, the external auditor is not only expected to be independent of the management but also independent of any circumstances that could influence his independent. External auditor should be 100 percent independent while that of internal auditor may not be 100 percent but he still require a measure of independence in his function.
2. Reporting Line: The internal auditor reports directly to the management that employ him while the external auditor reports to the shareholders whom employ him.
3. Membership of the company: The internal auditor is a member of the company employed by the management to perform specific function. While external auditor is not a member of the company.
4. Employment and Remuneration: Internal auditors are being employed by the management and he is being remunerated with salary on the other hand the external auditor is employed by shareholders who also set its fees based on the man hour put into the audit exercise.
5. Scope and Objectives: The scope and objectives of the internal is as defined by the management while the scope and duties of the external auditor is statutory.
6. Qualification: The internal auditor is not compel to be a professional accountant while the external auditor is not only expected to be a qualify accountant but must carry the practicing license of a recognised professional body. The two recognised professional bodies in Nigeria are Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN).
7. Approach: The Approach of internal audit function essentially is a review of internal control and detail test of transactions and balances while the approach by external audit is as describe by audit programme and circumstances as well as relevant statutes.

EVALUATION OF INTERNAL AUDIT FUNCTION.

Before the external auditor can rely on the work of internal auditors he has to evaluate the internal audit functions in order to determine the extent of his reliance. The following factors should be considered by the external auditor;

1. Degree of Independence: Although the internal auditor is an employee of the company, he should be able to operate with a reasonable degree of independence. He should be able to plan and carry out his work as he wishes and has access to the highest level of management but also has a direct line of communication to the entity’s main board or audit committee, and free of any other operating responsibility. External auditor consider any constraint or restrictions on internal audit. In particular the internal auditors should be free to communicate with external auditor.
2. Organisational Status: Internal audit specific status in the organisation and the effect of this has on its ability to be objective. The ideal thing is that internal auditors are to report directly to the highest level
3. Scope and Objective: The scope (extent of the work) and objective of the internal audit function should be relevant to the external auditors function. The external auditor should examine the internal auditors term of reference and should be able to access the relevance of the scope to his overall audit objectives.
4. Due professional care: Consideration should be given to whether the internal audit work is properly planned, control, coordinated, documented and reviewed.
5. Technical competence: The external auditor should consider the qualification and experience of the internal auditor. Is he a professional accountant and if so what is the level of his experience and where he acquired those experiences.
6. Internal Audit Report: The external auditors needs to examine the quality of internal audit report to see if it is worth relying on Also he should review actions taken by management on such reports
7. Resources available to the Internal auditor: Whether there is provision for training and personnel development for audit staff a requirement that will make them proficient in their duty.

AREAS WHERE EXTERNAL AUDITORS CAN SPECIFICALLY LIASE WITH INTERNAL AUDITORS.

1. Liaison of external auditors with internal auditors will be more effective when meetings are held at appropriate intervals during the period.
2. The external auditors need to be advised of and have access to relevant internal audit reports and need to be kept informed of any significant matters that comes to the attention of the internal auditors which may affect the work of the external auditors.
3. Similarly, the external auditors generally inform internal audit of any significant matters which may affect internal audit work.
4. The external auditors inform management or the directors including the head of internal audit function, of any significant factors noted which may results in improved economy, efficiency or effectiveness in their future use of the work of internal audit.

EVALUATING SPECIFIC INTERNAL AUDIT WORK.

APB SAS 500 on considering the work of internal audit further states that when the external auditors use specific internal audit work to reduce the extent of their audit procedures, they should evaluate that work to confirm its adequacy for their purpose. Note that evaluation of specific internal audit work involves consideration of the adequacy of the scope of work and related audit programmes and whether the assessment of the internal audit function remains appropriate. This evaluation may include consideration of whether;

1. The work is performed by persons with adequate technical training and proficiency as internal auditors.
2. The work of assistants is properly supervised, reviewed and documented.
3. Sufficient and appropriate audit evidence is obtained to afford a reasonable basis for the conclusions reached.
4. The conclusions reached are appropriate in circumstances.
5. Any report prepared by internal audit are consistent with the results of the work performed.
6. Any exceptions or unusual matters disclosed by internal audit are properly resolved.
7. Amendments to the external audit programme are required as a result of matters identified by internal audit work and
8. There is need to test the work of internal audit to confirm its adequacy (Chitty, 2004)

The nature, timing and extent of the testing if any of the specific internal audit work which the external auditors consider necessary depends on ;

1. Their judgment as to the risk and materiality of the area concerned
2. The assessment of the internal audit function and
3. The results of the other evaluation procedures.

Such tests may include examination of items already examined by internal audit, examination of other similar items and observation of internal audit procedures.

In the event that the external auditors conclude that the internal audit work is not adequate for their purposes;

1. They will extend their procedures beyond those original planned and
2. They will ensure that sufficient appropriate audit evidence is obtained to support the conclusions reached.

AUDIT PLANNING AND CONTROLS.

Paragraph 1 of the Auditors Operational Standard (AOS) stipulates that the auditor should plan, control and record his work. This helps to speed up the audit process. The bedrock is the audit planning memorandum (APM).

AUDITORS OPERATIONAL STANDARD (AOS)

These are five paragraph which clearly state the operational standards to be adopted by the auditor. They are as given below;

1. Controlling and Recording: The auditor should adequately plan, control and record his work.
2. Accounting System: The auditor should ascertain the enterprises system of recording and processing transactions and assess its adequacy as a basis for the preparation of financial statement
3. Audit Evidence: The auditor should obtain relevant, reliable and sufficient audit evidence to enable him draw reasonable conclusion about the financial statement.
4. Internal Controls: If the auditor wants to place reliance on any internal controls he should ascertain and evaluate those controls and perform compliance test on their operations.
5. Review of Financial Statement: In addition to compliance and substantive tests, the auditor should carry out a review of the financial statement to give him a reasonable basis for the expression of his opinion.

AUDIT PLANNING

Planning entails developing a focus and direction for the audit. This is done by the auditor in a document which contains general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor develops the general audit strategy in an overall plan to set the direction for the audit and provide guidance for the development of the audit programme. The audit programme sets out the detailed procedures required to implement the strategy as part of planning for the audit. Note that planning is necessary for audit of entities of all sizes.

Reasons for planning audit work among others are;

1. To establish the intended means of achieving the audit objectives.
2. Planning is necessary for control purposes. Note that the audit staff will have to run with the audit plan and when they notice deviation there is need to quickly revert back to original plan.
3. Planning focuses attention to critical and high risk areas of the audit.
4. Planning also ensure that appropriate attention is devoted to different areas of the audit.
5. Planning ensure that an audit is completed within a minimum time period.
6. Planning familiarizes audit staff with client and the audit.
7. Planning enables the auditors to determine the staffing requirements as well as proper assignment of work to members of the audit team
8. Planning also facilitate review.

AUDIT PLANNING PROCEDURES.

Auditors are expected to carry out the following procedures in planning their audit assignments;

PLANNING PROCEDURES FOR OLD OR EXISTING CLIENTS.

The auditor should consider the audit approach to adopt including the extent to which the auditor wishes to rely on the client internal control system. To this extent therefore the following procedures should be adopted;

1. Reviewing matters of continue relevant from the previous years working paper.
2. Assessing the effect of any change in the clients accounting systems and how these changes may affect his audit tests and procedures.
3. Assessing the effects of any change in legislation affecting the client.
4. Review any significant changes in the business and the client management structure.
5. Determine staff requirement in terms of man hour, skills and experience.
6. Determine the extent to which services of an expert would be needed.
7. Briefing the audit staff of the client system and areas to which special attention will be paid.
8. Spell out in detail the scope of the work of each audit staff.

PLANNING PROCEDURES FOR NEW CLIENTS.

The auditor in addition to the procedures listed in old or existing clients should consider the following.

1. Reviewing the clients background
2. Reviewing of the accounting policies and procedures.
3. Reviewing internal controls in operation.
4. Preparation of letter of engagement.
5. Applicable ethical guide on change in the professional audit.

MATTERS TO BE CONSIDERED BY AUDITORS IN DEVELOPING AUDIT PLAN.

Matters for auditors consideration in developing an audit plan include among others;

1. Knowledge of the client business. Things to focus on in this respects are;

* the general economic factors and industry conditions affecting the entity
* Important characteristics of the entity such as type of business, principal business strategies, its financial performance and its reporting requirements including changes since the previous audit.
* Operating style and control consciousness of directors and management
* The auditor’s cumulative knowledge of the accounting and internal controls systems and any expected changes in the period.

It is important to understand the sources of knowledge about the business which include; previous experience with the entity and its industry, direct visit of the auditor to the entity’s premises and plant facilities, discussion with people within the entity, discussion with other auditors or legal and other advisors to the client, discussion with knowledgeable person outside the entity, publication related to the industry and documents produced by the industry.

1. Risk Materiality: The auditors needs to assess the risk and materiality using the following criteria;

* The setting of materiality for audit planning purposes. In other words what constitute materiality must be set before the real audit.
* The expected assessment of risks of error and the identification of significant audit areas.
* Any indication based on the experience of past years that misstatement that could have a material effects on the financial statements might arise because of fraud or for any other reasons.
* The identification of complex accounting areas including those involving accounting estimates.

1. NATURE, TIMING AND EXTENT OF PROCEDURES: Here emphasis should be placed on;

* The relative emphasis expected to be placed on tests of controls and substantive procedures.
* The effect on the audit of the use of information technology by the entity or the auditors.
* The work of any internal audit function and its expected effect on external audit procedures.
* Procedures which need to be carried out at or before the year end
* The timing of significant phases of the preparation of the financial statements.

1. COORDINATION, DIRECTION, SUPERVISION AND REVIEW: Matters to consider include;

* The involvement of other auditors, including other officers of the same firm in the audit of components such as subsidiary undertakings , branches and divisions etc
* The involvement of experts, third parties and even internal auditors and communication with them.
* The number of locations and
* Staffing requirements.

1. OTHER MATTERS; Other matters to be considered in the planning procedures include;

* Any regulatory requirements arising from the decision to retain the engagement
* The possibility that the going concern basis may be inappropriate.
* The terms of the engagement and any statutory responsibilities and
* The nature and timing of reports or other communication with the entity that are expected under the engagement

AUDIT PLANNING MEMORANDUM (APM)..

This is the document prepared by the auditors setting out the information obtain and the decisions taking as a result of the audit planning effort. It is used to communicate information about the audit engagement and audit plan to members of the audit team.

The content of the APM include;

1. Background information relating to the client. Such information include among others;

* Group structure if any
* Brief history of the enterprise
* Main sources of revenue.
* Extent of any internal audit function.
* Significant accounting policies used by the company (client).

1. Appointment of Auditor: The areas of focus here include;

* When appointed as the auditor
* The terms and conditions of the auditors engagement.
* Audit approach.

1. Financial Information: Matters to consider here are:

* Past performances indicators.
* Key figures from management account for the year.
* Cash flow statement situation.

1. Critical Audit Areas: This include

* Previous problem areas.
* The risky areas of the audit that needs special attention such as contigent liabilities, stock valuation etc. In this area you may need the assistance of an expert.
* Impact of new FRS, NRS, Government legislation etc on the business of the client and the audit.
* Reliance on internal auditors work.

1. TAXATION: Areas of special focus are;

* Tax provision/ calculation
* Deferred taxation computation.
* Communication with tax consultants where applicable.

1. Final Audit Consideration: Matters to consider include;

* Organisation of stock count.
* Materiality guidance (Contribution in APM)
* Confirmations required and circularization procedures.
* Extent of preparation of schedule by the clients.

1. Information Relating to the Administration of Audit and Staff Requirement: This will focus on;

* The audit budget and timing.
* The reporting deadline
* Liaison with expert where required.
* Division of audit in the case of joint audit situation.

ADVANTAGES OF AUDIT PLANNING MEMORANDUM (APM).

The following are advantages of APM;

1. It assist in the review of audit work.
2. It enables the auditor to determine his audit strategy and approach.
3. It serves as a guide to future audit planning.
4. It ensures an early identification of areas of special audit emphasis.
5. It provides a basis for controlling and directing audit work.
6. It is an evidence of proper planning in the case of litigation.
7. It ensures that all aspects of the audit are covered.

CONTROLLING.

Paragraph one of the auditors operational standard (AOS) says that the auditor should plan, control and record his works. Control in this sense refers to quality control which is the means by which a firm obtains reasonable assurance that his expression of audit opinion always reflects the observant of approved auditing standard, relevant acts and professional standard. Quality control provides evidence to third parties that proper steps have been taken to attain a high standard audit.

PROCEDURES FOR AUDIT CONTROLS.

1. Each firm should establish a suitable set of procedures and communicate this to all parties and audit staff. Bigger audit firms usually have audit manual while smaller ones may have to rely on verbal instructions to staff.
2. Acceptance and reappointment; Consideration should be given to the firm independence, integrity and ability to provide an adequate service to the client.
3. Professional Ethics: There should be procedures to ensure adherence to the principle of independence, integrity, objectivity and confidentiality.
4. Skills and Competence: The objective is to have the fully competent and skilled set of partners and staff through the following procedure;

* Recruitment: Only suitably qualified and intelligent staff should be recruited.
* Technical Training and updating: Training programme, maintenance of technical library, circulation of technical circular etc should be applied in training the staff to standard form.
* On the Job Training and Professional Development: This involves the exposure of audit staff to different types of audit.

1. Consultation: This includes reference to specialist within or outside the practice regarding highly technical problem.
2. Monitoring the Firm Quality Control Procedures: Suitable procedures should be introduced to ensure that all quality control guidelines are working adequately.

QUALITY CONTROL IN INDIVIDUAL AUDIT.

The following quality controls could be exercised in an individual audit;

1. Staff Allocation: Audit staff should have appropriate training, experience, proficiency and other special skills requirement. Special attention should be focused on staff allocation such that only staff with requisite skills and experience should be given specific audit assignment. Note that different audit staff and partners have different experience and skills therefore concerted effort should be made to ensure that only staff and partners who have peculiar skill and experience are allocated to a specific audit assignment.
2. Proper briefing of staff: Audit staff on audit assignment should be properly briefed on the following areas;
3. Objectives of the audit.
4. Timing requirement for the audit. In other words the staff should be properly briefed on time frame for the conduct of different phases of the audit so that effort could be channeled toward timely completion of the audit exercise.
5. The overall plan of the audit.
6. Significant accounting and audit procedures.
7. Related parties issues must be settled.
8. The need to bring issues that put the audit staff on the field on enquiry to the attention of the superior.
9. Audit completion check list: Audit staff on the field should be made to employ the use of audit completion check list in every audit assignment. The essence of this is to ensure that no part of the audit is left unattended to.
10. Contentious Matters and Potential Qualification. All problems, special difficulties and potential qualifications must be identified, recorded and discussed among managers and partners.
11. Documentation: All audit work and conclusion reached must be fully recorded in the working papers.
12. Review: All audit work must be fully reviewed either by way of hot review ( on the sport or immediate review by the audit team leader) or external review at the office which could be done as panel review or peer review.
13. Acknowledgement: All audit work and review should be acknowledge in writing by the one who perform the exercise.

AUDIT WORKING PAPER.

Paragraph 1 of the auditors operating standard (AOS) state that auditors should record his work. The major objective of the auditors working paper is to show the detail of work done and to stand as the basis of forming his professional opinion on the financial statement before him that is required to report on.

PURPOSE OF WORKING PAPERS.

The following purpose could be identified as reasons for keeping audit working papers

1. They provide evidence of the work done or performed to support the audit opinion.
2. They assist in audit planning.
3. They provide a basis for the control of work done through independent review.
4. It serves as record of problems encountered during the audit , the information and explanation obtained and the conclusion drawn for future references.
5. They encourage the auditor to adopt a methodical approach in the conduct of an audit.
6. They serve as evidence of work done in case of court litigation. This could be used as basis of defense against negligence.
7. Working papers facilitates review by both managers and partners.

CLASIFICATION OF AUDIT WORKING PAPER.

Audit working paper could be classified into two namely permanent audit working paper and current audit working paper.

PERMANENT AUDIT WORKING PAPER.

The permanent audit working paper contains information of continue importance about the company to the auditor. The content of the permanent audit working papers are;

1. The company’s organizational structure
2. The company major accounting policies.
3. The company’s memorandum and article of association.
4. The nature of the business , the register office and branch networks if any.
5. Copies of important agreements such as loan agreement, lease agreement etc.
6. Title documents of all the noncurrent assets (fixed Assets)
7. Copies of published financial statements to date.
8. List of directors, their interest in the business and service contract if any.
9. Name and list of the company’s professional advisers such as lawyers valuers etc.
10. A description of the accounting and internal control system, books of accounts and accounting manual.

CURRENT AUDIT WORKING PAPER.

The current audit working paper contains current information about the company. The current audit working paper are;

1. A copy of management account or financial statement being audited.
2. Schedule of major items in the financial statement.
3. Audit programme which set of assignment or instructions to be carried out on the field by the auditor.
4. Letter of weakness or domestic report or internal control letter.
5. Extracts of the minutes of the board meetings held during the year. This will give insight to issues that might have been brought to the board knowledge and the action taken.
6. Current copy of the audit planning memorandum.
7. Letter of management representation, solicitors letter of comfort.
8. Copies of management letters.
9. Matters referred to partners attention.
10. List of audit queries and its position.
11. The audit journal highlighting how suggested correction on the audit should be treated.
12. A copy of the current year published financial statement.

QUALITY OF A GOOD AUDIT WORKING PAPERS.

A good audit working paper should contain the following qualities;

1. Working paper should be clear.
2. The information contained in the audit working paper should be complete and concise. i.e. It must devoid of unnecessary details.
3. It should be logical.
4. It should be neat and tidy. This will make it readable for the managers and partners.
5. It should be detailed enough to include nearly all aspects of the audit.
6. It should include the particular of the audit staff who prepare them as well as the date, accounting period etc.

AUDIT EVIDENCE.

An audit evidence is the information obtained by the auditor in arriving at the conclusion on which he bases his own opinion. An audit evidence may be self-generated , internally generated or externally generated.

TYPES OF AUDIT EVIDENCE.

1. Observation of physical assets, internal controls procedure and importance of the document
2. Testimonies from independent third party to corroborate internally generated evidence. However note that when the two evidences are contradicting it must be resolved but where they are consistent the assurance obtained from the two pieces of evidences far greater than the sum of the assurances derived separately. This is known as synergy effect
3. Authoritative documents prepared outside the company e. g. title deed, invoices ( third party invoices), shares and loan certificate, Lease agreements, patent, franchises, contract agreement etc.
4. Authoritative documents prepared inside the firm, e.g Minutes of board meetings, invoices and other vouchers.
5. Testimony from directors and other officers of the company in form of letter of representation, replies to internal audit questionnaire.
6. Satisfactory internal control is the most useful audit evidence.
7. Calculation performed by the auditor.
8. Relationship events such as published financial statements.

AUDIT OF FINAL ACCOUNT.

The audit process could be itemised as follow

* Planning of the Audit.
* Ascertainment of the Report.
* Assessment of internal control using internal control questionnaire (ICQ) or ICEQ.
* If result above is weak then substantive testing will be carried out
* If the result is strong then compliance testing will be carried out.

In final account the analytical tool is often used. Analytical review is the study of the relationship between elements of financial information expected to conform with a practicable pattern based on the organisational experience and between financial information. In this analysis ratios are often used. The ratios could be compared at different levels such as;

* Prior years comparison.
* Comparison with the standards as set by the company.
* Comparison with companies within the same industry.
* Comparison with budget.

In carrying out analytical review, the auditor should pay particular attention to the following;

1. Increase in ratios corresponding to inflation.
2. Changes in amount consequent upon changes in output.
3. Comparison with the previous period.
4. Trends and ratios.
5. Comparison with the budget and forecasts
6. Comparison with other similar organisation.

AUDIT PROGRAMME. An audit programme is a list of the work an auditor does or proposes to do during an audit. Specifically, it is a set of instructions to be carried out by the auditor in the course of the audit assignment.

ADVANTAGES OF AUDIT PROGRAMME.

The following are the advantages of audit programme;

* 1. It provides clear list of instructions to be carried out by the audit team.
  2. It facilitates review by managers and partners.
  3. It ensures that audit work is not duplicated.
  4. It provides a record of work done and by whom.
  5. It provides evidence of work done in case of litigation.

DISADVANTANGES OF AUDIT PROGRAMME.

Audit programme has the following disadvantages.

1. It makes audit work to be mechanical.
2. It discourage initiative from audit staff who are more or less working like a robot.
3. It does not respond quickly to changes in the client system.
4. Fixed audit programme may not allow the auditor to probe matters to the bottom when put on enquiry.
5. Fraud may be perpetrated when client staff is aware of the auditors plans and procedures.

THE USE OF ANALYTICAL REVIEW.

1. At the planning stage the auditor use analytical review to identify area of potential risk or new development so that he can incorporate this into his audit plan.
2. Obtaining evidence: It can be reasonable to obtain assurance of the completeness, accuracy and validity of transactions by using analytical review than by the use of other types of audit evidence. For example, if items of expenses will repeat pattern of previous period or years, the auditor have evidence of the accuracy of expenses invoice.
3. At the final review stage of the audit, analytical review can provides support for the conclusion arrived at as a result of other work. The technique is used to assess the overall reasonableness of the financial statement.

ASSETS VERIFICATION.

The auditor needs to ascertain the authenticity of every entries in the books and records of the entity he is auditing. In this case he needs to carry out detail examination of records. Verification in other words means the establishment of the ownership, existence and valuation of the assets and other element of the financial as at the balance sheet date. The major tool used in verification is vouching.

VOUCHING: This is the examination of the transaction in the client business using valid documents to gain evidence of the entries of the transactions into the books and records of the client company. This will give the auditor an assurance that the transactions are in order, properly authorised and correctly recorded.

STEPS IN VERIFICATION.

The steps to follow in detail verification could be provided in the acronym” CAVEBP” which represents;

C: COST

A: Authorisation

V: Valuation

E: Existence

B: Beneficial ownership.

P: Presentation.

We now explain each element of the acronym one after the other.

COST: The cost of the assets in question must be ascertain to ensure it authenticity, accuracy and completeness. The first point to identify the cost is through the invoice. The invoice will specify how much it cost to buy the item. However the auditor must ensure that every other adjoining or associated costs are included in the costing process. Such other associated costs include:

* Cost of transporting the item to the company (Carriage inward).
* For imported item cost of freight
* Import duties etc.

Auditor must ensure that none of these associated costs are left behind.

AUTHORISATION: The auditor must ensure that transactions recorded in the financial statement are properly authorised by responsible officer in charge of that. Documents that will be of great value and assistance are; Requisition note, Purchases order note etc.

VALUATION: Auditor has the responsibility to ensure that assets appearing in the Statement of Financial position (balance sheet) are properly valued using the approved valuation method. Note that there are several valuation method that could be used in literature. In accordance with International Accounting Standard these include among others; First in First Out (FIFO), Average and Weighted Average methods. Note however that using IFRS the only method accepted is FIFO.

EXISTENCE: Auditor must satisfy himself that the assets in question are physically present. The auditor can use the assets register to confirm all assets in use and their locations. This assets must be traced to the specified location. Also the auditor must confirm if these assets are in good working conditions. It is of no use for the assets to be in dilapidated form and are still being kept in the assets register. Auditor should advise that assets in this category be disposed even if it is at no additional revenue to the company.

Beneficial ownership: This means that the auditor must satisfy himself that all the assets appearing in the financial statement are owned by the company. These could be ascertain from the invoice for the purchase and other documents for the registration of the assets with relevant authorities. For example land and building could be ascertain from Certificate of ownership (Cof O) while motor vehicle could be ascertained from vehicle Licence Registration document.

Presentation: There are specified way and manner that each item on the statement of financial position should be presented in line with IFRS. It is the duty of the auditor to ensure that this presentation pastern should be adhered to.

AUDIT OF STOCK AND WORK IN PROGRESS. The auditor should pay particular attention to the audit of stock and work in progress for the following reasons;

1. Stock usually constitute one of the largest item in the financial position. Therefore a relativelly small error in stock could lead to material effect on the financial statement.
2. Closing stock have great effects on the cost of sales and could be manipulated to achieve a target profit. See the case of Cadbury in Nigeria.
3. Different accounting basis are used in the valuation of stocks and work in progress. There may be problem of valuation and determining the existence of some specialised stock items.
4. Inventory are most susceptible to major errors and manipulations.

The auditor must focus his attention on main aspect of the audit of stock and work in progress namely quantity and valuation.

QUANTITY: The auditors has a duty to obtain audit evidence that stock items as reflected on the financial statements are physically in existence at the financial year end. Management should ensure that stock items are accurately recorded in the financial statement. Since it is the duty of management to establish an adequate system of internal control over the stock items. To effect this management organises stock count periodically or annually.

GENERAL OBJECTIVES OF STOCK COUNT.

The following are the general objectives of the stock count;

1. To provide a basis for determining the quantity required in valuation of stocks and WIP.
2. To obtain audit evidence as to the existence of the stock and WIP.
3. To provide the basis for checking the correctness of stock records.
4. To ascertain the condition of stock and WIP. Are there any of the stock items that are obsolete, expired or spoilt? If so such stock items should be removed from the list of stock items.
5. To determine the accuracy of the cut off established on stock count. Note that how this is treated can make or mare the stock count procedure.
6. To ensure that adequate provision has been made for slow moving and obsolete stocks.
7. To determine the accuracy of stock valuation at the lower of cost or net realisable value.

DUTY OF AN AUDITOR IN STOCK COUNT.

The task of an auditor in the observation of stock count can be discussed under three phases namely; before the stock count, during the stock count and after the stock count.

WHAT THE AUDITOR SHOULD DO BEFORE THE STOCK COUNT.

The auditor should carry out the following before the stock count;

1. The auditor should review prior year working paper for matters of continue importance.
2. The auditor should discuss stock take arrangement with management.
3. The auditor should consider the location of the stock items and assess the implication on the location for controlling and recording of stocks items.
4. He should review the system of internal control relating to stock items in order to identify potential areas of difficulties.
5. He should consider the involvement of the internal audit functions with a view to plan reliance on their work.
6. He should arrange for confirmation from third party in respect of stock held by them or even attempt stock count on items in third party’s premises especially if this stock item is material. Note that there are items given out on “sales or Return” basis. This item must be properly accounted for.
7. In exceptional cases or circumstances where experts are needed arranging for contact with them must be made.

WHAT THE AUDITOR MUST DO DURING STOCK COUNT.

During the stock count the auditor is expected to do the following;

1. Observe whether the client staff are carrying out the instruction given for stock count properly.
2. He should make test count himself to obtain assurance that the internal controls are working as intended.
3. He should review the adequacy and efficiency of the cut-off procedure.
4. He should also ascertain that stock held on behalf of third party are identified and accounted for.
5. He should review the procedure for determining slow moving and obsolete stock items.
6. He should record the details and sequence of stock change and the serial number of the goods inward notes as well as good outward notes.

Specifically for audit of Work in Progress the following should be done.

1. Vouch cost of WIP with supplier’s invoices or standard costing sheet.
2. Trace raw-materials content to raw-material account.
3. Test check direct labour cost to content against job order or job set.
4. Check overhead apportionment.
5. Review and test cut-off procedure
6. Check final stock sheet for completeness and accuracy.
7. Check subsequent transfer of WIP to finished goods after the year end.
8. Compare stocks and WIP with prior year and other relevant basis to assess their reasonableness.

WHAT THE AUDITOR SHOULD DO AFTER THE STOCK COUNT.

The auditor is expected to carry out the following;

1. Follow up on all observation recorded in the audit working paper requiring urgent management actions.
2. He should collate all rough stock sheets, check their sequences and decide whether a proper stock take has been carried out.
3. Investigate material differences between the stock records and physical count.
4. Check replies from third parties and experts where engaged.
5. Notify management of problems encountered during the stock takes.

ADEQUACY OF CUT-OFF PROCEDURE.

Cut-off procedures in relation to stock ensures that there is a proper correlation between stock purchases and sales as at the cut-off date. Cut-off ensures that stock transactions up to the cut-off date are properly reflected on the quantity of stock as at that date.

The auditor shall carry out the following steps to ensure adequacy of cut-off;

1. Ascertain and assess the enterprise own procedures for ensuring correct cut off.
2. Select samples of GRN for goods received shortly before the year end and those received immediately after the year end to ensure that things have been properly taken up in the financial statement.
3. Carry out step 2 above for goods delivered note (GDN)
4. Obtain additional assurance on the accuracy of the cut-off through reconcilliation of suppliers account and debtors circularisation.
5. If the date of stock count differs from the balance sheet date the steps are to be performed at both dates.

VALUATION OF STOCK.

Stock valuation has to do with the application of generally accepted accounting principles as contained in SAS 4 and IAS 2. Basically, stock should be valued at lower of cost and net realisable value. Cost may be arrived at by applying the FIFO, Average cost, Standard cost, or the specific invoice .However LIFO and replacement cost are not to beused in the valuation of the stock.

VERIFICATION OF DEBTORS.

In verifying debtors the following steps should be adopted;

1. Review the internal control on debtors.
2. Check cast of debtors schedules and agree it to individual debtors ledger.
3. Check for the authorisation of the debt. Is it within the limit of the approval given to the customer or the limit is being exceeded.
4. Check a sample of invoices with the customers original order. This is to show that the debt actually occurs.
5. Ensure fairness in pricing by making reference to accrued price list.
6. Vouch payment per customers to the cash book and bank statements.
7. Review the age analysis of debtors with a view to providing for bad and doubtful debts
8. Carry out positive debtor circularisation at least one month before the year end.
9. Request for all letter of representation from management.
10. Ensure appropriate disclosure with the aim of showing true and fair position or view. Are there adequate provision made for bad and doubtful debt and is this presented in the normal form prescribe?
11. Ensure adequacy of cut-off.

AUDIT OF GOODWILL.

The following procedures should be followed;

1. Review the internal control of the goodwill.
2. Review minutes of board meeting.
3. Check the arithmetical accuracy i.e. where goodwill arise.
4. Review the agreement between the vendor and the clients company. Review the valuation basis of the assets taking over.
5. Request for a letter of representation from management.
6. Ensure compliance with the relevant act / decree and standard as to disclosure requirement.

AUDIT OF PATIENT RIGHT AND COPY RIGHTS.

1. Review the internal control system on acquisition.
2. Check minutes of board meetings for authorisation and of the acquisition.
3. Vouch with supporting documents as evidence with patient and copy rights.
4. Ensure that patient and copyrights have been properly registered.
5. Ensure that annual renewal fees if any have been paid or accrued for.
6. Check that the assets concern have been armotised over the correct life span.
7. Obtain letter of representation
8. Ensure that appropriate decision are made as required.

VERIFICATION OF PURCHASES.

In verifying purchases the following procedures should be adopted.

1. Check the invoice to ensure that it is addressed to the company. In other words it must bear the name of the company.
2. To confirm the authenticity of the invoice. You must ensure that the invoice should be on the letter head paper of the company with full details on how to follow up confirmation.
3. The good should be related to the company’s business.
4. The invoices should be signed and dated.
5. Calculation and extension should be checked.
6. Invoice date should relate to the current accounting year.

LIABILITY VERIFICATION.

The auditor has the following duties in respect of verification of liabilities.

1. Verify the existence of the liabilities shown in the statement of financial position.
2. Verify the money amount of the liability.
3. Verify the appropriateness of the description given in the accounts and the adequacy of disclosure.
4. Verify that all existing liabilities are actually included in the account.
5. Verify the appropriateness of the description given in the accounts and the adequacy of the disclosure.
6. Verify that all existing liabilities are actually included in the account.

VERIFICATION PROCEDURE.

1. Review the internal control over liabilities.
2. Request for the schedule or make schedule for each liability or class of liability.
3. Verify cut-off e.g. a trade creditor should not be included in the account unless goods were acquired before year end.
4. Consider the reasonableness of the liability.
5. Check authorisation of all liabilities
6. Examined all relevant documents e.g. invoices, correspondence, debenture deeds etc.
7. Check record for the securities offer for the liabilities to confirm its adequacy and whether it is a fixed or floating charges on the assets.
8. Check the appropriateness of the accounting policies adopted.
9. Request for a letter of representation.
10. Ensure appropriate disclosure in the financial statement.
11. Obtain third party confirmation where necessary.
12. Review post financial position (balance sheet) events.

VERIFICATION OF CONTIGENT LIABILITIES AND CAPITAL COMMITMENT.

1. Request for the solicitor letter of commitment in respect of contingent liability.
2. Review the minutes of board of directors meeting as well as committees to determine the existence of the contingent liability and capital commitment.
3. Review confirmation from third party
4. Discuss with management the adequacy of insurance cover in force.
5. Review the status of contracts which may contain significant penalty clauses.
6. Compare commitment and contingent liability in the current year with those of previous years.
7. Ensure appropriate disclosure.

LETTER OF ENGAGEMENT.

Before commencing any professional work an accountant should agree in writing the precise scope and nature of the work to be done or undertaking. This is done through a medium of an engagement letter.

The letter of engagement serve the following purposes;

1. To define clearly the extent of auditors responsibility.
2. To minimise misunderstanding between auditor and client.
3. To confirm in writing verbal agreement.
4. To confirm acceptance by the auditor of his engagement
5. To inform and educate the client of other services available in the practice.

PRINCIPAL CONTENT OF THE LETTER OF ENGAGEMENT.

The letter of engagement should outline the following;

1. Management responsibility for maintenance of proper accounting records and internal controls.
2. The auditor responsibility to report on the financial statement.
3. The scope of auditors work: That the work will be reviewed in line with IAG, IAS, SAS (IFRS & NFRS) and other standards accounting system that ensure collection of audit evidence , test and reliance on internal controls.
4. The sending of domestic report or internal control weakness letter to management.
5. The need for a letter of representation from management.
6. Irregularities and fraud prevention and detection is the sole responsibility of management who is expected to design good internal control that will ensure this. However the auditor is expected to design his work in such a manner that could detect fraud and error and if the auditor come across this in the course of his duty he will inform management. It must be noted that it is not the duty of the auditor to discover fraud.
7. Fees and basis on which they are charged will also be specified.
8. Any other assignment on professional services available in the practice in general.

LETTER OF REPRESENTATION.

It is now a normal audit practice for the auditor to obtain a letter from management addressed to the auditor confirming any representation giving by management to the auditor. Representation can thus be define as a statement made to convey an opinion.

A financial statement is the responsibility of management and the representation letter serves as a reminder to the management of their responsibility for the overall completeness of the financial statement. The auditor request for this letter because;

1. To provide documentary evidence on the matter which the auditor consider to be material to the financial statement and hence to his opinion thereof.
2. To obtain in writing positive statement on matters which affected their judgement and opinion?
3. To emphasise that the responsibility for view and judgement on the financial statement rest with the management
4. To obtain acknowledgement of management responsibility for the completeness of the financial statement particularly in the case of a small company where the auditor may not only have carried out the audit but may also have helped in the preparation of the financial statement.
5. Also in the case of small company where internal controls is probably limited and where inevitably the auditor has to rely heavily on the management supervision and to accept information which he is unable to substantiate with direct confirmatory evidence, to obtain acknowledgement in management roles in internal control system.
6. The letter must be written by the chief executive of the company or the head of department concern should the management refuse to give this letter the auditor should remind them of its importance and their responsibility for it. Should they still refuse the auditor should write one by himself and request management to sign it, If the refusal continue he should discuss with them orally and if not satisfy the auditor has no option than to qualify the account. It should be noted that the letter cannot be relied on as evidence against test not adequately performed by the auditor in case of litigation.

### AUDIT SAMPLING

Sampling refers to the procedure of deciding on and selecting a number of items from a group of items with a view to testing them and using the result obtained as a basis of forming an opinion about a group of items. Basically, there are two major types of audit sampling namely judgemental and statistical sampling.

JUDGEMENTAL SAMPLING

This is selecting a sample of appropriate size on the basis of the auditor’s judgement of what is desirable. This is also known as the seat of pants.

ADVANTAGES OF JUDGEMENTAL SAMPLING

1. It is easier to use.
2. No special knowledge of statistic is required.
3. Most suitable for small audit.
4. The economy of time as no calculation is involved.

DISADVANTAGES OF JUDGEMENTAL SAMPLING.

1. It is unscientific.
2. Personal bias is inevitable.
3. There is no real logic in the selection.
4. No quantitative result are obtained.
5. Audit risks are higher.

STATISTICAL SAMPLING.

This is an approach that is based on the mathematical law of probability and gives a sample for which the auditor can calculate the probability that it will be representative of the transactions from which it was selected.

ADVANTAGES OF STATISTICAL SAMPLING.

1. It is scientific and therefore can be proved logically.
2. It provides precise mathematical statement about probability being correct.
3. Random sampling or selection gives every items equal chances of being selected.
4. A risk of over or under auditing resulting from selecting too large or too small sample is minimised.
5. It leads to uniform standard among audit firms.

DISADVANTAGES OF STATISTICAL SAMPLING.

1. Lack of skill in statistics may cause wrong conlusion to be drawn.
2. It may not be feasible in term of cost and time.
3. It is only useful when the test is to achieve only a single objectives.

AUDIT RISK.

Audit risk is the risk that the auditor will draw an invalid conclusion from his audit procedure. The major risk here are;

1. INHERENT RISK: This is the risk attached to any particular population because of type, size and nature.
2. CONTROL RISK: This is the risk that internal control system will not detect and prevent material errors and fraud. If the risk is large, the auditor performs only substantive test.
3. DETECTION RISK: This is the risk that auditing substantive procedures and analytical review will not detect material error.

SAMPLING METHODS.

In auditing a sample which should be random, representative , protective and unpredictable can be determined by any of the following sampling methods.

1. HAPHAZARD SAMPLING: Choosing items subjectively but avoiding acceptable to non-statistical sampling but is insufficiently rigorous for statistical sampling.
2. SIMPLE RANDOM SAMPLING: All items in the population are given number. This numbers are selected by a procedure that gives every number equal chance of being selected. This is done using random number tables or computer.
3. RANDOM SYSTEMATIC SAMPLING: This method involves a random start and then taking every ‘n’ths item thereafter.
4. STRACTIFIED SAMPLING: This is dividing the population into strata I.e. sub-population and it is useful when part of the population have higher than normal risk.
5. CLUSTER SAMPLING: This is useful when data is maintained in cluster. For example group or branches as wages records are kept in months or sales invoices on daily basis. The idea is to select a cluster randomly and then you examine all the items in the cluster chosen. The problem with this method is that the sample may not be representative of the population.

MULTI STAGE SAMPLING: This method is appropriate when data is stored in two or more levels. E.g. stores in a retail chain of shops. The first stage is to randomly select the sample of shops while the second stage is to randomly select stock items from the selected shop.

BLOCK SAMPLING: A block of items is selected at random e.g. test all june purchases invoices. This method is however not recommended because it is not scientific enough.

VALUE WEIGHTED SELECTION: This method uses currency unit value rather than the items of the sampling population.

FACTORS TO BE CONSIDERED IN DETERMINING SAMPLE SIZE.

1. Population size.
2. Level of confidence on internal control
3. Prescision I.e range of error.
4. The level of audit risk.
5. Materiality: Population that are material to the overall audit opinion such as stock and work in progress.
6. Subjective factors such as

* Previous year experience
* Auditors knowledge of the company.
* Analytical review

1. Audit approach
2. Audit staff to be engaged. Should such staff be qualified accountant or trainee?

AUDIT OF GOING CONCERN (SAS 1)

The auditor needs to form an opinion on whether or not a company is a going concern. By going concern we mean that the company intend to be in operational existence to foreseeable future. The financial statement assume no intention or necessity to liquidate or constrain significantly the scale of operation of the company.

AUDITORS RESPONSIBILITY.

The auditor has a duty to express an opinion on the truth and fairness and compliance with status of the financial statement. In forming his opinion, he should consider if he has reasonable ground for accepting that the going concern principle is appropriate.

SYMPTONS OF GOING CONCERN PROBLEM.

There are two broad areas where going concern problems could be noticed. These are insolvency problem and other problems that could question ability to continue in business.

1. INSOLVENCY PROBLEM.
2. Insolvency problem arise when a company could no longer meet its financial obligations as at when due. For instance inability to pay creditors as they fall due. This problem could be noticed through the following;

* Adverse current ratio acid, acid test ratio and adverse trend analysis.
* Depedency on short term finance for long term needs.
* High gearing or leverage ratio.
* Dividend, taxes etc in areas.
* Excess stock and debtors.
* Overdraft in excess of facilities granted.
* Recurrent operating loses.
* Default in loan interest and capital repayment.
* Potential loss on long-term contract.
* Under capitalisation particularly where there is deficiency of share capital and reserve.

1. Other problems that raise question about business continuation are;

* Loss of key management staff
* Prolong industrial actions.
* Loss of key franchise or patent rights.
* Loss of principal suppliers or customers.
* Substantial dependence on one uncertain project.
* Political risk
* Continue use of obsolete machines
* Potential loss on long term contract
* Legal proceedings against the company.
* National disaster.

AUDIT PROCEDURES ON GOING CONCERN.

The auditor should review the available management information and interim account and review the forecast and budget for going concern problem symptoms. If the auditor becomes aware of any sympton which may suggest that the enterprise has a going concern problem, he should seek for additional evidence to nullify this by;

1. Reviewing plans mapped out by the management to overcome the problem.
2. Review budgets and forecast prepared by management taking into consideration the basis on which they have been prepared.
3. Obtaining written confirmation from the third party where finance is to be provided by such person.
4. Where an enterprise is a member of a group, obtain written confirmation from other sister company who pledge assistance.
5. Make reference to relationship events such as development in economy, federal government pronouncement etc.

Having carried out the above steps the auditor should consider whether he has gathered relevant, reliable and sufficient audit evidence on which he has to base his opinion. Whether the financial statement have prepared on a going concern basis.

AUDIT OF POST FINANCIAL POSITION (BALANCE SHEET) EVENTS (IAS 10)

These are events both favourable and unfavourable which occurred between balance sheet date and the date on which the financial statements are approved by the board of directors . IAS 10 provides that assets and liabilities should be adjusted for events occurring after the balance sheet date that provides additional audit evidence to assist in estimation of amount relating to condition existing at the balance sheet date or that indicate that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Post balance sheet events can either be adjustable or non adjustable.

ADJUSTABLE POST BALANCE SHHETS EVENTS.

These are events which provide additional evidence relating to the condition existing at the balance sheet date. They require changes in the amount to be included in the financial statement such as;

1. Information on material inaccuracy of accrued profit in long term contract.
2. Subsequent determination of the purchase price or proceeds of the sales of non-current assets.
3. Insolvency of debtors.
4. Receipt of proceed of sales of stock and work in progress.
5. Information of permanent demunition in value of long term investment.
6. Insurance claim now ascertained but was in negotiation at the balance sheet date.
7. Dividend receivable declaration.
8. Discovery of errors or fraud that provides evidence that the financial statement were incorrect.
9. Receipt of information on actual rate of taxation.
10. Material loss of non-current asset

NON ADJUSTING POST BALANCE SHEET EVENTS.

These are events that do not require changes in amount but may be material as to require their disclosure by way of notes to the accounts to ensure that the financial statement are not misleading. These include;

1. Labour disputes and strike actions.
2. Merger and acquisition.
3. Purchase and sales of material non-current assets and investment.
4. Changes in the rate of foreign exchange
5. Nationalisation actions by government.
6. Issue of shares and debentures - either fixed or floating rate..
7. Amalgamation and reconstruction
8. Losses of non-current assets arising from fire, flood or other catastrophic disaster.
9. Closure of significant parts of the business.
10. Opening of a new business or extending existing activity.

AUDIT OF POST BALANCE SHHET EVENTS.

The objective of the audit review of events after the balance shhet date is to obtain reasonable assurance that all material post balance sheet events have been identified and adjusted for where necessary in the financial statement. This could be achieved by the following;

1. Examination of accounting records and management accounts.
2. Review of cash flow projections and profit forecast made for the new period.
3. Review known high risk areas and contingencies.
4. Review minutes of board meetings even after the balance sheet dates.
5. Examine the relationship events
6. Ensure appropriate disclosure requirement.

RELATED PARTIES TRANSACTIONS.

These transactions need the auditors special attention since the terms and conditions of these transactions may be unduelly favourable to one of the parties e.g.

1. Organisations under common controls with the client company.
2. Executive directors and their immediate family.
3. Share holders with substantial holding (Above 10%)
4. Associated company
5. Any party with the ability to prevent the company from pursuing its interest independently

INDICATIONS OF RELATED PARTY TRANSACTIONS.

The following are signs of related party transactions;

1. Borrowing or lending at rates substantially higher or lower than the prevailing commercial rate.
2. Sales or purchases of assets at prices substantially different from those currently being charged.
3. Granting of loan with no repayment terms and non perfection of security.
4. Exchange of assets in a manner which hides the underlying value of the assets exchange.
5. Engaging in transactions without insisting on proper documentation of facts .
6. Knowledge of dishonesty among the staff of company.

AUDIT PROCEDURE FOR RELATED PARTY TRANSACTIONS.

1. Examine the minutes of meetings of the board of directors for authorisation of material transaction.
2. Review whether management or other services are provided or received from a major shareholder.
3. Obtain direct confirmation from the third party.
4. Review major contract entered into during the financial year.
5. Review the system of internal controls on assets and liabilities.
6. Examine relationship events.
7. Ensure appropriate disclosure of the financial statement.

RELIANCE ON SPECIALIST WORK.

There can be circumstances where the auditor’s knowledge is insufficient and he will then need to rely on the opinion of experts or specialists to assist him in forming his opinion. Examples of such experts are ;

1. Valuers: They assist on the value placed on non-current assets such as freehold leasehold properties and where the company applied the provision of IAS 25.
2. Qualify surveyor on the value of work done on longterm contract (SAS 5)
3. Actuarist;On the liabilities to be included in respect of pension scheme and profit to be recognised by the insurance company.
4. Geologist: On the quantity and quality of mineral reserves.
5. Stock Brokers: On the value of stock exchange securities.
6. Lawyers: On the legal interpretation of contracts and agreement or the outcome of disputes and litigation.

FACTORS TO BE CONSIDERED BEFORE ENGAGING EXPERTS.

1. Materialism of the items concern.
2. The risk of significant errors.
3. The competence of the specialist.
4. The independence of the specialist.
5. The complexity of the items involved and the auditor’s understanding of them.
6. Other sources of audit evidence available.

AUDIT REPORT

When an auditors has completed its audit assignment he needs to make a report to the shareholders who engaged him. The audit report may be a clean or qualify audit report. Audit report should basically have the following 5 sections;

1. Heading: The heading should read “Report of the auditor to members of XYZ LTD”
2. The work done: The standard required that the auditor should refers expressly as to whether or not the account have been prepared in accordance with the statutory regulations and any relevant guidelines.
3. The financial statement. That is the period covered by the report.
4. The auditors opinion
5. The name of the auditor and the date the report was signed.

TYPICAL AUDIT REPORT.

AUDIT REPORT TO MEMBERS OF ABC LIMITED

FOR THE YEAR ENDED 31ST DECEMBER 2018.

We have audited the financial statement set out on pages --- to page ---- and have obtained all the information and explanations which we require for the purpose of our audit.

Proper books of accounts have been kept and the financial statement which are in agreement with the books and records complied with the company and allied matter act of 1990 as amended.

To the best of our knowledge and believes, we report that no contravention of the PPIB guidelines has come to our notice in respect of the year ended 31st December, 2018.

In our opinion the financial statement which have been prepared under historical cost convention as modified at the revaluation of land and building give a true and fair views of the state of financial affairs of the company as at 31st December, 2018 and on the profit and source of application of funds for the year under review.

XYZ & CO CHARTERED ACCOUNTANTS

APRIL 2019.

An audit report could either be a clean or a qualified report. A clean audit report will show that the financial statement under review show a true and fair position of the state of affair of the for that period. On the other hand a qualified audit will show that the financial statement does not show a true and fair position.

QUALIFICATION OF AN AUDIT REPORT.

The following standards must be met for all qualified audit report;

1. Give all the reasons for the qualification.
2. Estimate and quantify the financial effect if relevant and practicable.
3. The report should be clear and unambiguous.
4. The wordings should reflect the nature of circumstances and the degree of materiality.

There are two circumstances that can lead auditor to qualify his audit report. These are uncertainty and disagreement

1. UNCERTAINTY: This is a situation where the auditor in unable to form an opinion on a matter relating to the account or financial statement. Examples are;

* Where the auditor is unable to carry out the procedures considered necessary for his audit.
* Where the auditor is unable to obtain all information and explanation considered necessary for his audit.
* Absence of proper accounting record in the company.
* Doubt about the ability of the company to continue operating on going concern basis.
* Doubt about the outcome of the pending major litigation.
* Doubt about the outcome of a long term contract.

1. DISAGREEMENT: This is a situation where the auditor forms an opinion on a matter relating to the account but this conflict with the view shown by the financial statement. Examples include;

* Disagreement as to fact and amount included in the financial statement.
* Disagreement as to the extent of disclosure of fact or amount in the financial statement.
* Failure to comply with the statute and other relevant regulations.
* Departures from generally accepted accounting principles.

GUIDE TO QUALIFICATION OF AUDIT REPORT.

The form below should be used as guide for qualification of audit report.

|  |  |  |
| --- | --- | --- |
| NATURE OF CIRCUMSTANCES | MATERIAL BUT NOT FUNDAMENTAL | MATERIAL AND FUNDAMENTAL |
| Uncertainty | Subject to opinion | Disclaimer opinion |
| Disagreement | Except to opinion | Adverse opinion |
|  |  |  |

Given the above table four distinct qualified opinions could be given by the auditor.

1. SUBJECT TO OPINION: In a subject to opinion the auditor expression of this opinion is based on the circumstance of uncertainty on items considered to be material but not fundamental.
2. DISCLAIMER OPIONION: The auditor will raise this opinion in a situation of uncertainty on a matter that are both material and fundamental.
3. EXCEPT TO OPINION: This opinion is raised in a situation of disagreement on a matter the auditor considered to be material but not fundamental.
4. ADVERSE OPINION: This opinion is raised on a situation of disagreement on a matter the auditor considered material and fundamental

INVESTIGATION.

NATURE OF INVESTIGATION.

Investigation is the examination of the financial and other relevant information pertaining to an entity on behalf of a client for some special purpose of his other than to report on the true and fairness of the view shown by the financial information. The purpose is specified by the client.

TYPES OF INVESTIGATION.

1. Investigation on behalf of an intending purchaser of a business. Client who want to purchae a particular business because of the huge financial outlay involved will like to base his decision on sound information.
2. Investigation on behalf of an incoming partners: The information are almost the same with one above. The information will allow him to make up his mind on how much to buy his own share of the business.
3. Investigation on behalf of a creditor for loan purposes: This information will assist the loan provider to appreciate the financial capability and credit worthiness of the person requesting for loan. Equally the report will help him to determine the viability of the project to be financed with the loan.
4. Investigation for the purpose of reporting on profit forecast: This could be used to support loan request, credit extension etc. The accountant will have to investigate the reasonableness of the profit forecast.
5. Investigation carried on behalf of client preparing an account for report for inclusion in a prospectus.
6. Investigation where fraud is known or suspected to have taken place.
7. Investigation for tax purposes: The tax authority has the legal right to carry out investigation on back duty audit for five year.
8. Investigation carried out under the company and allied matter act 1990.

DIFFERENCECES BETWEEN INVESTIGATION AND CONVETIONAL AUDIT

The various differences between investigation and conventional audit could be drawn from these major areas of focus;

1. OBJECTIVE: Conventional audit are carried out for the purpose of reporting on the true and fairness of the view shown by the financial statement while investigation are carried out for any special purpose specified by the client other than to report on the true and fairness of the view shown by the financial statement.
2. EXTENT OF REGULATION: Conventional audit are strictly regulated by statutory and professional requirement while on the other hand investigation are generally not regulated by statute and professional requirements.
3. INDEPENDENCE OF THE ACCOUNTANT: Under conventional audit the requirement for the accountant (auditor) independence is very fundamental. Accordingly the auditor must not only be independent but must be seen to be independent. On the other hand for investigation the requirement for independence is not so fundamental unless it is specially required by law.
4. QUALIFICATION OF THE ACCOUNTANT: With conventional audit, the accountant must be a member of the institute that is recognised by law in Nigeria and carry its practising licence. Note that the only two recognised professional accounting institute are Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN). On the other hand accountants engaged on investigative assignment needs not to be a qualified accountant nor hold the practising licence of the professional institute.
5. SCOPE OF WORK: The scope of conventional audit is as laid down by law. On the other hand , the scope of investigation is usually as specified by the client.

STAGES OF AND PROCEDURES IN INVESTIGATION.

STAGES.

The following stages are involved in investigation;

1. Obtain Written Term of Reference: This could be in form of letters of engagement which will spell out the reporting deadline, scope of the investigation, and those to whom the report will be directed.
2. Contact the Auditor of the Client if any: The need here is derived from the need to exercise courtesy for professional colleague. It could also be to obtain the assistance and cooperation of those auditors.
3. Organise / Plan the Investigation: Determine the number of staff require for the investigation and the requisite skill and experience of such staff. Also you need to determine and specified the stages involved in the investigation.
4. Obtain background information about the client company: The background information will include economic social political and technological environment under which the company operates. This is because factors in the external environment may affect the decision of the company. Thus this need being revealed.
5. Obtain preliminary Information about the nature, structure etc of the business: You need strong historical background of the company. Information about the accounting system, trend of business etc are required.
6. Prepare report outlines: With the background information you should be able to prepare an outline of your report such as scope and sensitive area to be covered.
7. Conduct detail investigation: You have to search for all the facts required by conducting detail investigation.
8. Report: Prepare draft report which you will discuss with the client so as to determine where the client is not yet satisfied with the aim of amending it while still upholding professional ethic of integrity. Thereafter a clean report should be typed and sent to the client.
9. Audit feedback: You need to await feedback from the client.

INVESTIGATION PROCEDURES.

The following procedures should be followed in investigation.

1. Obtain written terms of reference: The accountant should discuss and agree the term of reference with client . It is important that you document your understanding of the term of reference by means of letter of engagement so as to avoid misconception by either party. Ensure that a copy of the letter of engagement is acknowledge by the client as evidence by the client signature and official stamp. This letter must be properly filled by the auditor.
2. Contact the auditor of the enterprise under investigation if any: The accountant should seek Authorisation where appropriate from client to enable him to contact the auditor of the enterprise. The accountant should preferably communicate with the auditor in writing informing him of the investigation and soliciting their cooperation during the exercise.
3. Organise / Plan the investigation: The accountant should review the scope of the investigation so as to determine the extent of work to be done using his professional knowledge and experience. On the basis of this analysis the accountant should determine the number of staff required for the investigation as well as the skill and experience they need to possess. Equally the involvement of expert if any should be determined and properly incorporated into the plan. The timing of the various phases of the investigation and the procedures to be followed in the control and direction of the assignment must be outlined.
4. Obtain background information as to the economic, social, political and technological environment of the enterprise. To do this the accountant must obtain and review statistical and other information relating to the industry in which the enterprise is a participant.Some of the matters to cover during this review will include;

* The nature of the industry.
* The size of the industry
* Trend of business within the industry.
* Nature and extent of competition within the industry together with the market share.
* Recent events in relation with social, political, economic and technological impacting on the client

1. Obtain the preliminary information about the enterprise itself: Here the accountant must review the information (documentary or oral) concerning the enterprise especially those which relates to the;

* History of the enterprise business
* Nature of the enterprise business,
* Trend of the enterprise business
* Company organisational structure.
* Accounting policies and accounting system of the client .
* Internal control system
* Market share within the industry.
* Significant assets and liabilities
* Recent events having significant impact on the business of the enterprise etc.

1. Prepare report outlines: To do this the accountant must review background and preliminary information so as to determine areas of significant interest which are likely to influence the client decisions. These areas should be set out in the form of major sections of the final report. This outline provide the basis for the allocation of various section of the assignment to different teams of staff. It also provides for the control and direction of the assignment.
2. Conduct detail investigation: The accountant should conduct detail examination using procedures and techniques such as interviews, questionnaire physical inspections, examination of records and the examination of procedures carried out by others. Information obtained should be properly documented in working papers. Documentation techniques that may be adopted by the accountant may include; narative notes, questionnaire, check list and flow charting.
3. REPORT: The accountant should prepare a draft report. The procedure to be followed in this contest may include;

* Each team to prepare a draft report in relation to the areas covered by that team.
* Reports for the various areas should be collated and edited to read coherently as a single report.
* The draft report should be discussed with the client so as to determine whether it meets the client requirement.
* Additional work may be carried out in view of the responses obtain from the client.
* The final report should thereafter be prepared, typed , edited, signed, binded and sent to the client.

1. Await feedback from the client

GOLDEN RULES OF REPORTING.

These are the desirable qualities that accountant report should have. The accountant report should be simple and unambigous . Use of technical terms should be minimised and explained where used. Also the report must take account of those to whom it is addressed . In other words it should be such as to ensure correct understanding by the recipient. The report should set out the following;

1. The Tittle: Brief statement of the term of reference (Scope and objectives).
2. Statement of methodologies employed.
3. Information obtained
4. The accountant conclusion and recommendation.
5. Any qualification as for example where there are limitation placed on his scope which prevent the accountant from obtaining all the considered necessary information and explanation for the investigation. Detail analysis, computation etc should be appended to the report. The report should be properly signed and dated and should set out clearly those to whom it is addressed.

GOLDEN RULES OF INVESTIGATION.

The golden rules of investigation include those matters in the stages of investigation. These are;

1. Obtain written term of reference.
2. Contact the auditor of the enterprise.
3. Organise/Plan
4. Obtain background information.
5. Obtain preliminary information.
6. Prepare report outlines.
7. Conduct detail investigation.
8. Report.

INVESTIGATION ON BEHALF OF AN INTENDING PURCHASER OF A BUSINESS.

1. CIRCUMSTANCES OF INVESTIGATION: Investors may want to buy a business in another line of business so as to diversify. In this case he will rely on the accountant on the information needed to assist him in making a decision whether to buy or not . Even if the business is in the same industry, he will need specific analysis and information about the coy to be purchased this will be provided by the accountant.
2. PURPOSE OF THE INVESTIGATION: The purpose of the investigation is to provide the client with the information that will enable him to decide whether to buy the business or not.Also it will guide him about the consideration to pay for the business.
3. PRELIMINARY CONSIDERATION: The following preliminary action should be taken.

* Obtain written term of reference . this will set up the scope of the investigation.
* Ascertain the price asked for by the seller . How much is the seller willing and ready to take.
* Ascertain the extent of the involvement of the present owner in the running of the business and how this will affect the operation of the business going forward after the purchase. Will he be ready to assist the company on part time basis at least untill the company stabilise.
* Gain an understanding of the nature and background of the enterprises business

1. MATTERS TO CONSIDER DURING DETAIL INVESTIGATION: The following matters should be considered in the course of detail investigation.

* Examine prior year accounts so as to establish the trend of the financial performance of the business. The trend of operation of the prior years is one of the big tools that will enhance buyer decisions. Prepare account in columnar form . Analyse items that show variations and the reasons for such variations. Note changes in accounting policies , exceptional / unusual transactions. Also note any misstatement in the accounts. It is equally important to note and compare estimates with actual cost and revised it to the actual.
* Examined most recent set of accounts to establish the reliability of its figure. You should ensure figure included are not distorted. Items that should receive our attention are; turnover, cost of sales, other revenue, net profit etc.
* Verify assets and liabilities reported are authentic.
* Determine future maintainable profit: This is the profit the purchaser is sure to make to the future. To estimate it, you should adjust prior year income that is not likely to be earned in the future and expenses not likely to be incurred in the future.
* Consider other non-financial matters which include;
* Remaining life of the lease, trade agreement and posibility of their renewal.
* Competence and integrity of the management staff of the enterprise.
* Labour conditions: Is there any labour unrest or industrial unrest.
* What is the impact of change of ownership of a firm on the volume of business of the company.
* The need to enter into agreement with existing owner to prevent them from establishing a similar business within the same locality after the change in ownership.
* Consider the number of services and products of the company as well as their spread of customer of the enterprises.
* Determine the remaining useful life of the assets and the timing of their replcement and amount required.

1. Consider future prospect of the enterprise . This include;

* Market trend within the industry.
* Pending government legislation likely to impact on the business..
* Planned government projects such as road construction and its implication on the business of the enterprise.
* Profit forecast for this business.

INVESTIGATION ON BEHALF OF AN INCOMING PARTNER.

1. PURPOSE OF INVESTIGATION: To provide the incoming partner with information that will allow him to make decisions on whether to become a partner or not. Also it will assist him to make up his mind on the consideration to pay for his share of the partnership.
2. PRELIMINARY CONSIDERATION: The accountant should consider the following;

* Ascertain reason why another partner is required.
* Ascertain how much the existing partners are requesting from the incoming partners.
* How much the incoming partner is ready to offer for the proportion to be purchased from the partnership.
* The accountant should gain an understanding of the nature of the business and the environment in which it operates.
* Where the business has its own auditor, the accountant should establish contact with such auditor.

1. MATTERS TO CONSIDER DURING DETAIL INVESTIGATION: The following matters should be considered during detail investigation:

* Examine prior year financial statements.
* Examine the most recent sets of accounts to verify its reliability. He should examine the amount on debtor so as to ensure there is no danger of bad debt on account. Equally amount place on goodwill which is an intangible asset should be examined to ensure that it is properly determined. He should also examined other assets and ensure that they are properly valued.
* He should also determine future maintainable profit.
* Other non-financial matters that could affect the business must be examined I.e. remaining life of leases, licences and other posibility of their renewal. The capability of the staff and management of the business should be reviewed too. Also examine the relationship between the existing partners to ensure there is no trouble. Find out if additional fund required is the reason for the introduction of the new partners. Determine if the amount that will be paid by the new partner will be adequate and if not what other standing agreement is inplace to make up the balance.Review the existing agreement between the old partners and how it will affect the incoming partner.

1. Consider the future prospects of the business as usual. Consider the profit forecast of the organisation.They could be carried out on behalf of a supplier who has recived Also consider any proposed legislation of the government that is likely to affect the business . Consider the market trend. Consider any government project plan that could affect the business.

INVESTIGATION ON BEHALF OF CREDITORS FOR CREDIT PURPOSE

1. CIRCUMSTANCES OF THE INVESTIGATION: This could be viewed from the following perspective;

* They could be carried out on behalf of a supplier who has received request from his customer for extended credits.
* They may be required by financial institution where they receive applications for loan or overdraft facilities from their customers.

1. PURPOSE OF THE INVESTIGATION: The purpose of this investigations are;

* To establish the legality of the loan whether the loan can be enforceable by law.
* To determine the viability of the project for which the credit is to be applied.
* To determine the viability of the customers business in case of existing business.
* To evaluate the security offered by the proposed debtor for the loan. The ease of converting the security to cash should be considered.
* To determine whether the credit applicant will be able to pay the principal instalment and accruing interest as at when they fall due.

1. . PRELIMINARY CONSIDERATION: The following preliminary consideration should be examined;

* Term of reference: This will specify the scope and terms of the investigation.
* The purpose for which the debtor require the loan.
* He should gain an understanding of the nature and size of the business of the loan applicant.
* He should consider the operating environment of the business ( political, Social, Economical, Legal environments) so as to determine the future of the business.
* He should obtain prior year financial statement of the business
* He should obtain cash-flow and project forecast.

1. MATTERS TO CONSIDER WHEN CONDUCTING DETAIL INVESTIGATION: This will depend on the type of credit whether long or short term credit.

SHORT OR MEDIUM TERM CREDIT: The short term cash-flow position will most interest the creditor. He is not interested in the future prospect of the client business but its short term prospect. Thus the accountant will focus on the following

* Stock and Work in progress: He will ascertain if the stock are owned by the business and the basis of its valuation whether it follow acceptable norm. He will need to analyse them into stock and work in progress. He needs to establish if any part of the stock has been pledged.
* Account Receivables: Review the age of the debt and their collect-ability. Consider the adequacy of provision for bad and doubtful debt.
* Consider the existing cash balances because this will affect the ability to settle the liabilities including the loan.
* Examine current liabilities and the timing of their payment I.e. amount due to creditors, workers, tax authority etc and when they are due.
* Examine the cash-flow forecast. Ensure that all amount that affects the working capital are carefully used in building cash-flow. Also consider any contigent liability . Are there guarantee and any litigation etc.
* Give regard to the legal capacity of the borrower. Check the memorandum to see if the loan is ultravire the business or not.

LONG TERM CREDIT.

The client will be most interested in the long term prospect of the proposed debtor. He should take care of the following

* He should examine the assets properly with regards to ownership and valuation method. Consider the paper to ensure ownership. Also consider whether any of the investment have been pledge as security for other loan.
* Consider the investment: Here consider the paper to ensure ownership . Consider the book value and determine whether any of the investment has been pledged as security for other loan
* Consider whether there is adequate insurance cover for the assets of the business. Ensure that the risk of asset destruction is adequately covered by insurance
* Examine other long term loan of the company: Consider the term and conditions of the loan. i.e interest, the repayment schedule and check if it is being upheld. Also check if adequate arrangement have been made for the repayment of the long-term loans that have fallen due.
* Consider those long term liabilities in term of those that are secured and those not secured. In respect of secured one, consider the assets used as collateral.
* Consider the proportion of long term liability to the total assets of the business. Is the business highly geared?
* Consider the existence of any standing liability. Is there any contingent liability which is capable of endangering cash position of the business.
* Consider the future maintainable profit so as to determine the level of return the business is likely to generate in the future.
* Where the long term credit is for new project, the viability of the new project must be considered. In line with this the following are to be considered;
* Consider the availability of experienced staff to man the project.
* Consider the experience of the promoter to determine whether they can handle the project.
* Examine the profit and cash flow forecast of the project.
* Also consider the market potentials for the project.
* The location of the project should also be considered.
* Consider the total fund requirement for the project and the proportion to be contributed by the owners.
* Consider arrangement to secure any additional fund in case the total loan and owners contribution are not sufficient for funding the new project
* Consider the future prospect of the business. Here we consider the profit. Forecast and the proposed government legislation likely to impaired on the business.
* Consider market trend within the industry used and the assumptions made in their preparation
* Also consider any proposed government project likely to affect the project.

INVESTIGATION FOR THE PURPOSE OF REPORTING ON PROFIT FORECAST.

Profit forecast are estimate of operating result for the future period. profit forecast may be prepared to induce the person to purchase a business or to become a partner in a business or to induce a person to extend credit facilities to a business. Most commonly profit forecast in prepared in a prospectus.

PURPOSE FOR THE INVESTIGATION.

Purpose of this investigation are twofold;

1. To report on the accounting basis and the accuracy of the forecast.
2. To consider and report whether the profit forecast is consistent with the accounting policies used and the assumptions made in their preparation

MATTERS THAT MUST BE AGREED WITH THE MANAGEMENT BEFORE ACCEPTING THE APPOINTMENT.

The following matters should be agreed with management before accepting this kind of investigation assignment;

1. The profit forecast to be reported upon by the accountant and the purpose for which the profit forecast has been prepared.
2. The management is responsible for the profit forecast.
3. That the accountant responsibility is to report on the accounting basis and the accuracy of the profit forecast stating whether in the accountant opinion the profit forecast is consistent with the accounting policies used and the assumptions made in their preparation.
4. That there will be no limitation in the scope of the accounting work unless such limitations will be mentioned in the accountant report.
5. That the accountant will be given sufficient time to carry out the work necessary for his report on the profit forecast.

MATTERS THAT SHOULD BE CONSIDERED DURING DETAIL INVESTIGATION.

There are four areas to be addressed ;

1. He should gain proper understanding of the nature and background of the enterprises business. Issues to considered are;

* It should ascertain the products and services offer by the enterprises.
* He should find out about the prior year position and the financial statement .
* He should find out information about the environment both politically, socially, technologically and economically.
* Consider any recent events having significant impact on the enterprises business I.e. the international oil market situation.

1. Considered the accounting policies followed in the preparation of profit forecast. Reviewed the policies to determine whether they are appropriate and acceptable to the circumstances of the enterprise business. Find out whether they are consistent with the accounting policy normally used by the enterprise in preparing their financial statement.
2. Ascertain and review the assumptions made in profit forecast such as assumption on inflation, market share, periodical stability etc.
3. Consider the arithmetical accuracy of the profit forecast. Consider the procedure to determine if such could be relied on to generate a reliable forecast.

MATTERS TO CONSIDER IN REVIEW STAGE.

The matters to be consider at the review stage include;

1. Ascertain whether the profit forecast under review derives from the forecast prepared for management purposes.
2. Consider the frequency and the thoroughness with the which management forecast are reviewed,
3. Consider the success achieved by the enterprise in prior period forecasting exercise.
4. Consider whether the target established by management are realistic in view of the resources and other constraint facing the enterprise.
5. We should also consider the amount of detailed information obtained in the preparation of the profit forecast.
6. Find out how sales is determined . Is it gross basis or addition of sales from all the departments?Where part of the period lowered by the profit forecast has expired compared actual results for those periods with results anticipated in the profit forecast.
7. Consider the treatment of prior year adjustment and extraordinary items in the forecast.
8. Consider the predictability of the items in the profit forecast.
9. Consider the provision for contingency . Is the provision adequate
10. Obtain and review the cash flow projection for the period
11. Consider the adequacy of the working capital.
12. Ascertain whether adequate arrangement has been made for finance to support project anticipated in the forecast.
13. Check the calculation of the profit forecast for arithmetical accuracy.

MATTERS TO REPORT IN ACCOUNTANT INVESTIGATION REPORT.

The following must appear in the accountant report;

1. The profit forecast to which the report relates and the purpose for which it has been prepared
2. That the management is responsible for the profit forecast.
3. That the accountant has reviewed the profit forecast and his opinion regardind the accounting basis and the calculation of the profit forecast and whether the profit forecast is consistent with the accounting policies used and the assumptions made in their preparation.
4. Any qualification or reservation of the accountant.

INVESTIGATION WHERE FRAUD IS KNOWN OR SUSPECTED TO HAVE TAKEN PLACE.

This investigation may be required by management or owner of the business. Internal or external auditor or independent auditor may be called to carry out investigation on issue of fraud. Fraud refers to either the intentional misrepresentation of the financial information with or without defalcation of assets or defalcation assets without manipulation of records. The former is usually carried out by top management while the later is carried out by low level management that has no access to the records. The combination of the two are carried out by middle level management.

PURPOSE OF FRAUD INVESTIGATION.

The following could be the purpose for carrying out investigation;

1. To determine the scope of the fraud I.e products , department involved.
2. To determine those who are directly or indirectly involved in the fraud and the extent of their involvement.
3. To prescribe appropriate control procedure which if established will minimise the risk of the reoccurence of such fraud.

GENERAL APPROACH.

It is not always easy to state the approach to be adopted in fraud investigation. The type of fraud will dictate the approach . Also the item of the fraud will determine the approach.

1. Obtain the written term of reference.
2. The accountant should gain an appropriate level of understanding of the nature and the background of the enterprise business.I.e. the organisational structure, accounting system internal control in place etc.
3. He should ascertain the role and responsibility of that person involved in the fraud, their level of involvement, their level of authorities and the assets / records they have access to.
4. Examine the record / accounts likely to have been affected by the fraud. Vouch entries in to their records to ensure their validity and that all items have been recorded . Also check the coast for arithmetical accuracy. Check the balance brought forward. Compare the current records with those of previous periods so as to determine significant changes. It will be necessary to confirm debtors etc.. Verify those assets and liabilities to establish their completeness, accuracy and validity. Confirm credit entry with third party to determine that they are not fictitious
5. Interviewed where considered appropriate persons involved in the fraud.

INVESTIGATION FOR TAX PURPOSE.

This investigation could be carried out on behalf of tax payer or tax authority. The tax authority could request for a back duty investigation if it is discovered that a tax payer is underpaying tax. A tax payer may permit investigation into his tax affairs to enable him object to excesive tax assessment to correctly establish his tax position so as to put in claim the refund of excess tax payment.

PURPOSE OF TAX INVESTIGATION.

To establish correct tax position of the tax payer so as to determine any over/underpayment of taxes where they relate to expired tax year. This is known as back duty investigation.

MATTERS TO CONSIDER WHERE THE TAX PAYER IS A COMPANY.

1. Obtain written terms of reference.
2. Obtain preliminary information including;

* Nature and size of business
* Prior year performance
* Prior tax year tax returns
* Receipt in respect of tax payment and tax withheld at source.

1. Examine financial statement for reliability. This may involve tax computation for correctness of basis and accuracy of calculation.
2. Verify the income and expenses of the tax payer during the period covered by the investigation.
3. Prepare a rough cash book showing the income for the period and the expenses on one hand and increase in the net worth and estimated cost of living on the other hand. Compare outflow with total inflows and where it is noticed that outflows exceed inflows enquire from tax payer the source of the additional income.

INVESTIGATION FOR THE PURPOSE OF PREPARING AN ACCOUNTANT REPORT FOR INCLUSION IN THE PROSPECTUS.

MEANING OF A PROSPECTUS: A prospectus is any notice advertisement , circular or publication issued by an enterprise or its promoter inviting the public to purchase or subscribe for the shares or debenture of an enterprise.. The prospectus provides a vehicle for informing prospective investors about the enterprise and the securities being offered for purpose of subscription.

Various experts either by convention or as a result of legal requirement make reports which are included in the prospectus. One of such reports is the accountant reports required under the CAMA 1990 as ammended and under stock exchange listing requirement.

SIGNIFICANT OF ACCOUNTANT REPORT.

The auditor of the enterprise using the prospectus and or independent accountant are usually required to prepare audited or accountant reports for inclusion in the prospectus. This report generally pertaining to the financial statements of the enterprise for the five years immediately preceding the date of the publication of the prospectus.

The auditor/ accountant must exercise due professional care in the preparation of this report as they will be liable for damages suffered by the investing public who relied on their report which had been negligently prepared to make their investment decision. Consequently, the accountant/ auditor must carefully plan their work, supervise the assignment or document work done and report properly according to their findings.

The need to exercise independence of aprroach and objectivity can not be over-emphasised.

CONTENT OF THE ACCOUNTANT REPORT.

Under CAMA 1990 as ammended, two reports are required;

1. Auditors reportto be prepared by the statutory auditor of the company.
2. The accountant report to be prepared by independent accountant.

The auditors report should cover the following;

1. WHEN THE COMPANY DOES NOT HAVE SUBSIDIARY.

* The profit or loss of the company for the past five years immediately proceeding the date in which the prospectus is published.
* The financial position (Balance sheet) showing the assets and liabilities of the company as at the latest accounting date reported upon.
* Particulars of dividend paid in respect of each class of shares for the 5 years immediately preceeding the date of the publication of the prospectus. Detail of the shares should be atated by the auditor.
* The auditor should also state whether the latest accounting date ends in a period exceeding 3 months of the date of the publication of the prospectus.

1. WHERE THE COMPANY HAS SUBSIDIARIES.

* The profit or loss of the company for the past five years immediately proceeding the date in which the prospectus is published.
* The financial position (Balance sheet) showing the assets and liabilities of the company as at the latest accounting date reported upon.
* Particulars of dividend paid in respect of each class of shares for the 5 years immediately preceding the date of the publication of the prospectus. Detail of the shares should be stated by the auditor.
* The auditor should also state whether the latest accounting date ends in a period exceeding 3 months of the date of the publication of the prospectus.
* Consolidated profit and loss of the subsidiaries or for each subsidiary or for the group as a whole for the 5 years immediately preceding the date of the publication of the prospectus.
* Consolidated assets and liabilities of the subsidiary or for each latest accounting date reported upon.

THE ACCOUNTANTS REPORT.

The accountant reports under the decree is required where the company intends to apply the proceeding of the issue either in whole or in parts for the acquisition of a business or of shares in another coy to the extent that the invested company becomes a subsidiary.

Matters to which the accountant are expected to reports include the following:

1. Where the proceeds of the issue are to be applied wholly or partly for the acquisition of another business;

* The profit or loss of the business to be acquired for the 5 years preceding the date of this publication of the prospectus.
* The assets and liabilities of the business proposed to be purchased as at the latest accounting date.

1. Where the proceeds of the issue are to be applied either wholly or partly for the purchase of the share in another company such that the invested company becomes the subsidiary of the coy;

* Profit or loss of the company for the 5 years immediately preceding the date of the publication of the prospectus . The profit or loss should be adjusted for minority interest as at the latest accounting date the company was the subsidiary.
* When the investee company has subsidiary , the report should relate to the investee company’s account and its subsidiaries.

CONTENT OF THE ACCOUNTANT REPORT UNDER THE STOCK EXCHANGE.

The demand of the stock exchange is more rigorous than those under CAM 1990. The stock exchange require that members will apply where the enterprise issue the prospectus on the stock exchange. The content of the report is as follow;

1. In relation to statement of profit or loss, five years preceding accounting periodthe following details must be provided;
2. Turnover representing sales to third parties less returs, discount, allowances and other returns.
3. Cost of sales showing the individual components separately.
4. All other income stating each type separately.
5. Taxation showing basis for its computation.
6. Minority interest
7. Extraordinary items of profit less taxes attributable there in.
8. Profits after taxation and extraordinary items attributable to shareholders.
9. The amount and rate of preference dividend.
10. Profits after taxation and extra ordinary items attainable to equity shareholders.
11. The amount and rates of equity shareholders dividend distinguishing between interim and final dividend.
12. Retained profit.
13. THE SUMMARY OF ASSETS AND LIABILITIES: The summary of assets and liabilities of the enterprise for the past five years.
14. Detail financial position (Balance Sheet) of the enterprise or group as at the latest accounting date.
15. Significant accounting policies applied in the treatment of material items in the accounts.
16. Particulars of of the company securities and or those of its subsidiaries which have been paid under option or agreed to be put under option and the consideration given for the option.
17. Particulars of any company’s capital or those of its subsidiaries which have been issued at a discount within the past five years immeadiately preceding the publication of the prospectus in addition to commission etc paid in respect of the company’s capital issue for the period should be disclosed.
18. Particulars of preliminary expenses indicating the amount, beneficiaries and the nature of services provided to the enterprises.
19. Particulars of directors interest in the purchase of properties by the company and its subsidiaries for the five years immediately preceding date of the publication of the prospectus.
20. Particulars of leasehold properties showing the period of lease investee entities, the book and market values of the investment and dividend received in respect of the investment for each of the preceding five years.
21. Particulars of the promoters showing amount record by them and the nature of services rendered for the enterprise.
22. A statement that no account have been issued by the company for any period after the date of the latest account upon which the accountant report is based.
23. A report of the accounting basis and accuracy of the profit of the enterprise.

THE ACCOUNTANT PROCEDURES.

The following procedures are to be followed by the accountant;

1. Obtain written terms of reference document in the letter of engagement.
2. Establish contact with the auditor of the company ehere the reporting accountant is a person other than the auditor.
3. Plan the investigation.
4. Gain an understanding of the nature and background of the enterprise.
5. Examine the statement of profit or loss for the accounting years covered by the report.
6. Verify assets and liabilities of the company and its subsidiaries as at the latest accounting date.
7. Consider adjustment to the profit or loss and the assets and liabilities and prepare adjusted statement of profit or loss and adjusted statement of financial position (balance sheet).
8. Attend meetings of the issuing house and the board of directors on the issue.
9. Review the profit.

INVESTIGATION UNDER CAMA

The commission may appoint one of its most competent inspectors to investigate the affair as of the company and to report in such manner as it may direct. An inspector may be appointed under the following circumstances;

1. If not less than 25 percent of the shareholders of the company apply for their investment.
2. If the company passes special resolution asking for investigation.
3. If the court order the investigation.
4. If the investigation is necessary for the related company such as subsidiary or associated companies.
5. If there are circumstances suggesting that;

* The company has been conducted in such a manner to defraud the creditors.
* The company is operating an unlawful or fraudulent purposes.
* The company is conducted in a manner apprehensive to members.
* The company’s promoters are guilty of fraud or other illegal acts.
* Members have not been given relevant information regarding the affairs of the company.

In conducting such an investigation, it is necessary to define the scope of the work, the accountant obligation, the specific purpose , the reporting requirement and the basis for charging fees and reimbursable expenses. Payment of the expenses of the investigation will first be made on the revenue fund and person who has been prosecuted by the Antony General to make payment will be made to pay. The company or any person recovery proportion as a result of this investigation will make repayment for the expense.

Any company or person in whose name the matter was presented in court will be responsible for making repayment . Any person mentioned in the report will be required to make repyment to the extent specified in the report.

SPECIAL AUDIT.

Area of special audit include;

* Audit of insurance company.
* Audit of pension funds.
* Audit of banks.
* Audit of building societies
* Audit of charities
* Audit of share transfer.
* Audit of Ministries and local governments.

AUDIT OF INSURANCE COMPANIES.

NATURE OF INSURANCE COMPANY: Insurance business specialised in insuring customers against risks. The insurance contract is usually embodied in an insurance policy certificate.In consideration for insuring the customer against the specific risk, the customer (insured) pay insurance premium. The premium may be paid in a lumpsum or in several installments and constitute the insurance businesses most significant single items of income.

Where the insured suffer damages as a result of the occurrence of the risk against which he has been insured the insurance company will usually be obliged to pay claims put forward by the insured on the basis of the insurance contract. Claims will generally constitute the most significant single item of expenses in the financial statement of the insurance company.

Usually insurance business are statutorily required to invest certain of their fund in recognised assets such as deposits in banks, government stocks etc. Significant investment income are derived from these investments. The insurance may often made use of agents and brokers to market its policies. Commission is often based on a proportion of a premium income brought in by such agent.

Note that insurance business are strictly carried out under srict regulatory framework.

INSURANCE REGULATORY FRAMEWORK.

Insurance company business are carried out within a strict regulatory framework. The principal act regulating insurance business in Nigeria is the Insurance act of 1876 as amended. Insurance company are company usually registered under the company and allied matter act of 1990 as amended. Insurance company are also subjected Central Bank of Nigeria monetary guidelines and PPIB guidelines.

CLASSES OF INSURANCE BUSINESS.

Basically insurance business are classified into two broad groups under insurance act of 1976 namely Life insurance and Nonlife insurance business.

Nonlife insurance business include;

1. Fire insurance.
2. Marine insurance.
3. Motor vehicle insurance.
4. Burglary.
5. Workmanship compensation.
6. Building insurance etc.

LICENSING OF AN INSURER.

To carry out insurance business one must obtain a licence from the director of insurance . To be able to get the license certain conditions must be met. These are;

1. The applicant must have shown proof that the statutory minimum capital have been deposited with the Central Bank of Nigeria.(CBN). For general insurance N10B capital is required while N18B is required for life insurance. However for re-insurance business N20 is required. Where an insurance company is engaged in both general and life assurance, then the capital shall be N28B while re-insurance shall be N38B.
2. This director of insurance must be satisfied that that there is at least one qualified person to head each of the departments of the class of insurance business.
3. The director of insurance must be satisfied with the forms and terms of policies to be marketed.
4. The director of insurance must be satisfied that adequate arrangement have been made for re-insurance.
5. That the owner of the insurance business are not person who have been found guilty of fraud.

MAINTENANCE OF RECORDS.

The insurance business in accordance to insurance act of 1976 are expected to maintain the following records in their head office;

1. Article and memorandum of association.
2. Register of members.
3. Minutes of shareholders meetings.
4. Minutes of directors meeting
5. Register of debentures holders.
6. Register of policies.
7. Register of claims
8. Register of re-insured policies distinguishing between those policies reinsured in Nigeria and those re-insured in abroad.
9. Register of group policies.
10. Register of records of cash receipts and payment .
11. Register of cash surrendered value of life policies.

MAINTENANCE OF TECHNICAL RESERVES.

The insurance act of 1976 provides that the insurer must maintain such reserves. The type of reserves to be provided for differs from life to general insurance.

RESERVES FOR NON-LIFE BUSINESS.

1. Reserves for unexpired risks-
2. Reserves for outstanding claims
3. Contingency reserves.

RESERVES FOR LIFE BUSINESS

1. General reserves.
2. Contingency.

UNEXPIRED RISK RESERVES.

Reserves for unexpired risk is usually made as a contigency for losses that may be suffered by that insurance business in respect of outstanding policies. The basis for providing the reserves is as given by the act which is 45 percent of total premium income. In the case of marine insurance it is 75 percent of net premium.