

**JULY 2025 PROFESSIONAL EXAMINATIONS  
AUDIT & ASSURANCE (PAPER 2.3)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**STANDARD OF THE PAPER**

The overall standard of the paper was commendable, thoroughly covering the entire syllabus. The questions were practical and aligned with the revised syllabus in terms of structure and weightings. The paper was well-balanced, neither overloaded nor ambiguous, and was largely free from errors and typographical mistakes.

**PERFORMANCE OF CANDIDATES**

Performance was very impressive. A total of 150 candidates sat for the examination, out of which 130 passed and 20 failed. This translates to a pass rate of 87%, an improvement compared to the 84% recorded in March 2025.

**NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES**

**Strengths**

Some candidates demonstrated a strong grasp of key auditing concepts, including:

- The **benefits of internal audit** to an entity.
- The **importance of planning** for the external auditor.
- **Key audit assertions** relevant to inventory balances.

Additionally, many candidates:

- Provided clear and concise answers.
- Applied theoretical knowledge effectively to practical scenarios.

**Weaknesses**

Some candidates exhibited the following shortcomings:

- Difficulty applying theoretical concepts to real-world situations.
- Limited understanding of:
  - Safeguards for **appropriate auditor removal**.
  - Specific audit procedures for testing assertions related to inventory.
  - The **application of analytical procedures**.
  - The **elements of performance audit**.
- Poor handwriting, which made marking more time-consuming.

## QUESTION ONE

- a) Auditing is a systematic process of examining and verifying financial statements, records and operations to ensure accuracy, compliance and efficiency.

**Required:**

Explain the following concepts in auditing:

- i) Accountability.
  - ii) Materiality.
  - iii) Stewardship.
  - iv) Agency.
  - v) Independence. **(10 marks)**
- b) Disagreements between auditors and directors about the treatment of items in the financial statements or conduct of the audit are to be expected. Directors acting on emotions could decide to dismiss the auditor. Appropriately, they need the consent of the shareholders.

**Required:**

With reference to section 141 of the Companies Act 2019, (Act 992), discuss **FIVE** safeguards to ensure that the removal of an auditor is appropriately done. **(10 marks)**

**(Total: 20 marks)**

## QUESTION TWO

- a) West Africa Retail LTD (WARL) is planning to scale up its operations as part of a major growth strategy and has decided to implement a new accounting software. Sasu Chartered Accountants has been recently engaged as the external auditors of WARL. In the course of the audit, the Company's Financial Controller approached the audit team to assist in the quality assurance process in the implementation of this new accounting software which will include assistance in migrating data from the legacy application to the new accounting software. The auditors have considered the scope of this new proposed service and concluded that the service requested are outside the terms of external audit service engagement contract.

**Required:**

- i) In line with the IESBA code, state **FIVE** safeguards to be observed by Sasu Chartered Accountants if they decide to accept the service engagement. **(8 marks)**
- ii) State the likely decision of Sasu Chartered Accountants if WARL were to be a public interest entity. **(2 marks)**

- b) The IESBA code provides guidance for all professional accountants on how to respond when encountering non-compliance with laws and regulations (NOCLAR).

**Required:**

State **FIVE** circumstances where professional accountants may disclose a matter of non-compliance of laws and regulations to an appropriate authority without the consent of the client. **(5 marks)**

- c) The internal audit function has several benefits for companies so far as their own internal controls and public perception about their activities are concerned.

**Required:**

Discuss **FIVE** benefits of internal audit to an entity. **(5 marks)**

**(Total: 20 marks)**

### QUESTION THREE

- a) Bashiru & Associates is an audit firm engaged to audit the financial statements of Shegu LTD, a manufacturing company, for the year ended 31 December, 2023. Shegu LTD has experienced significant growth over the past year, resulting in increased sales and expansion of its production facilities. The company's financial statements include various complex transactions and balances that require thorough auditing.

Bashiru & Associates plans to perform a detailed audit, focusing on key assertions related to the inventory balances. The audit team will gather sufficient and appropriate audit evidence to confirm Shegu LTD's inventory balances.

**Required:**

- i) Identify and explain **TWO** key audit assertions relevant to the inventory balances. **(2 marks)**
- ii) For each assertion identified in (i), describe **ONE** specific audit procedure Bashiru & Associates can perform to test that assertion for Shegu LTD's inventory balances. **(3 marks)**

- b) The objective of an audit per *ISA 300: Planning an Audit of Financial Statements* is to plan the audit work so that the audit will be performed in an efficient manner.

**Required:**

Explain **FIVE** importance of planning to the external auditor. **(15 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

- a) *International Standard on Auditing (ISA) 520: Analytical Procedures* provides guidelines on the application of analytical procedures during an audit. Analytical procedures involve the evaluation of financial information through analysis of plausible relationships among financial and non-financial data. At the conclusion stage of an audit, these procedures help in forming an overall conclusion about the financial statements.

**Required:**

- i) With suitable scenarios, identify the importance of the application of analytical procedures in the following stages of an audit:
- Planning stage. (2 marks)
  - Substantive procedures stage. (2 marks)
- ii) State **FOUR** limitations of analytical procedures. (6 marks)
- b) During the audit of a client, your team identified several control deficiencies. The engagement partner has requested you to document your evaluation of the deficiencies identified in the audit file to aid him in drafting the management letter to be issued to management and those charged with governance.

**Required:**

- i) State **THREE** factors that can be considered in the evaluation of the identified control deficiencies. (3 marks)
- ii) If some of the above control deficiencies were assessed to be indicative of fraud involving key management personnel, state the appropriate person(s) to communicate such issues to. (2 marks)
- c) During the audit of a client, a team member approached you to discuss some misstatements identified in the audit of the client's trade payables. In the discussion, the conclusion was that the misstatement identified was clearly trivial.

**Required:**

State the direction and guidance you will provide to this colleague. (5 marks)

(Total: 20 marks)

## QUESTION FIVE

- a) Manukure LTD, a manufacturing company, is undergoing its annual audit. During the audit, the auditors identified issues with the revenue recognition process. Manukure LTD records sales as soon as orders are placed by customers, even though products have not yet been dispatched. The auditors are concerned about the ***occurrence*** assertion for revenue.

**Required:**

As the audit team leader, describe the relevant audit procedures you would perform to test the ***occurrence*** assertion for revenue at Manukure LTD and discuss the implications of recognising revenue before dispatch. (5 marks)

- b) You are conducting an audit of a mid-sized manufacturing company. Due to the high volume of transactions, it is not feasible to test every single transaction. The audit team has decided to use ***sampling techniques*** to test controls and substantive procedures for key areas like purchases and inventory.

**Required:**

Discuss how you would determine the sample size for testing purchase transactions. (5 marks)

- c) Performance audit is widely used in the auditing of the public sector in accordance with International Standards on Supreme Audit Institutions (ISSAI 100).

**Required:**

Explain the ***elements*** of performance audit. (10 marks)

**(Total: 20 marks)**

## SUGGESTED SOLUTION

### QUESTION ONE

a) **Explanation of the following concepts in Auditing**

- i) **Accountability:** This refers to the obligation of an individual or organization to explain and justify their actions, decisions and financial performance to stakeholders. It involves being answerable for one's actions and decisions and being subject to oversight and scrutiny. Auditors assess whether an organization is accountable by examining its financial statements and other disclosures to ensure they accurately reflect its financial position and performance
- ii) **Materiality:** The concept of materiality refers to the significance of financial information or misstatements in the context of its impact on the decisions of users of financial statements. Information is considered material if its omission or misstatement could influence the economic decisions of users.
- iii) **Stewardship:** This refers to the responsibility of individuals or management to manage and protect the resources and assets of an organization on behalf of its stakeholders. It involves demonstrating accountability and ensuring that resources are used efficiently and effectively. In small companies, the shareholders may be the same people as the directors. However, in most large companies, the two groups are different.
- iv) **Agency concept:** The agency concept refers to the relationship between principals (owners or shareholders) and agents (managers or executives) in an organization. Principals delegate decision-making authority to agents, who are expected to act in the best interests of the principals.
- v) **Independence:** This refers to the auditor's ability to perform their duties objectively and without bias or influence from the parties being audited. It is a key principle in maintaining the credibility and integrity of the audit process. Auditors must remain independent both in appearance and in fact. This means they should not have any financial or personal relationships with the entity being audited that could impair their judgment or objectivity.

**(2 marks each for a concept well-explained = 10 marks)**

b) **Safeguards to ensure that the removal of an auditor is appropriately done.**

**Removal of an auditor**

**Companies Act 2019, (Act 992), Section 141**

(1) A resolution to remove an auditor or to appoint any other person in the place of that auditor is not effective unless,

- (a) a written notice has been given to the company of the intention to pass the resolution, not less than thirty-five days before the general meeting at which the resolution is to be moved and on receipt of the resolution, the company has forthwith sent a copy of the resolution to the auditor concerned;
- (b) the resolution is passed at a general meeting of the company; and
- (c) the company has given the members notice of the resolution at the same time and in the same manner as the company gives notice of meetings or, if that is not practicable, has given the members notice of the resolution in the same manner as notices of meetings are required to be given not less than twenty-one days before the meeting.

(2) For the purposes of subsection (1),

(a) if, after notice of the intention to move the resolution is given to the company, an annual general meeting is called for a date thirty-five days or less after the notice has been given to the company, the notice is properly given; and

(b) in the case of a resolution to remove an auditor appointed by the directors in accordance with subsection (4) of section 139 or to appoint any other person in place of an auditor so appointed, subsection (1) shall have effect with the substitution of fourteen days for thirty-five days in paragraph (a) of subsection (1) and seven days for twenty-one days in paragraph (c) of subsection (1).

(3) The auditor concerned is entitled

(a) to be heard on the resolution at the meeting; and

(b) to send to the company a written statement, and the company shall send copies of the statement with every notice of the annual general meeting or, if the statement is received too late, shall forthwith circulate to each person entitled under subparagraph (f) of paragraph 1 of the Eighth Schedule the notice of the meeting in the same manner as notices of meetings are required to be given.

(4) The company is not required to send or circulate the statement under paragraph (b) of subsection (3),

(a) if the statement is received by the company less than seven days before the meeting; or

(b) if the Court, on an application made by the company or any other person who claims to be aggrieved, so orders on being satisfied that the statement is unreasonably long or that the rights conferred by this section are being abused to secure needless publicity for defamatory matter; the Court may order the costs of the applicant to be paid in whole or in part by the auditor although the auditor is not a party to the application.

(5) Without limiting the right of the auditor to be heard orally on the resolution, the auditor may, unless the Court makes an order under subsection (4), also require that the written statement by the auditor be read to the meeting.

(6) If the resolution is passed, the resolution shall not take effect until the conclusion of the annual general meeting.

**(5 relevant points @ 2 marks each = 10 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Most candidates successfully explained key auditing concepts such as **Accountability, Materiality, Stewardship, Agency, and Independence**, earning high marks. A few, however, struggled with discussing **safeguards for auditor removal**.

## QUESTION TWO

a)

- i) Providing accounting software-related services to an audit client might create a self-review threat.

For clients that are not public interest entities, the Code requires the following safeguards:

- The client must acknowledge its responsibility for the system of internal controls.
- The client must designate a competent employee, preferably senior management, to be responsible for management decisions in respect of the design and implementation of the system.
- The client must make all such management decisions.
- The client must evaluate the adequacy and results of the design and implementation of the system.
- The client shall be responsible for the operation of the system and the data generated by it.

**(5 relevant points @ 1.6 marks each = 8 marks)**

- ii) For public interest entities, audit firms are prohibited from designing or implementing IT systems that:

- Form part of the internal control over financial reporting; or
- Generate information for the client's accounting records or financial statements on which the firm will express an opinion.

**(2 marks)**

- b) Professional accountants may disclose a matter of non-compliance of laws and regulations to an appropriate authority without the consent of the client if:

- The entity is engaged in bribery.
- The entity is regulated and the matter is of such significance as to threaten its operating license.
- The matter could result in adverse consequences to the financial markets.
- Products harmful to the public health or safety are likely to be sold.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

**(5 points @ 1 mark each = 5 marks)**

c) **Benefits of internal audit to an entity**

- Improvements in financial controls or operational controls within the entity.
- Improvements in compliance with key laws and regulations, thereby reducing the risk of legal action or action by the regulators against the entity.
- Improvements in the economy, efficiency or effectiveness of operations.
- If the internal auditors carry out checks into the effectiveness of financial controls within the entity, the external auditors may decide that they can rely to some extent on the work done by internal audit. This would save time and effort when carrying out their own audit work. If the external auditors do rely to some extent on the work of internal audit, there may be a reduction in the external audit fee.
- The existence of an internal audit department may enhance the reputation of the entity for sound corporate governance in the opinion of customers and investors.
- Internal audit helps in identifying, assessing and mitigating risks effectively.



- Internal audit's recommendations for process improvements and best practices help the organization enhance its systems and operations continuously. This leads to ongoing improvements in efficiency, effectiveness, and control.

**(5 points @ 1 mark each = 5 marks)**

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

Many candidates competently discussed the **benefits of internal audit** to an entity.

However, several struggled to articulate:

- The **safeguards before accepting a service engagement**.
- The appropriate response to **non-compliance with laws and regulations**.

### QUESTION THREE

a)

i) **Key audit assertions relevant to inventory balances:**

- **Existence:** The assertion that inventory figures reported on the balance sheet actually exist at the reporting date. The inventory listed on the balance sheet is physically present in the company's warehouse.
- **Rights and Obligations:** The assertion that the entity holds or controls the rights to assets, and liabilities are the obligations of the entity. Shegu LTD has legal ownership of the inventory recorded on the balance sheet and it is not subject to any liens or encumbrances.
- **Completeness:** The assertion that all assets, liabilities, and equity balances that should have been recorded have been included in the financial statements. All inventory owned by Shegu LTD at the reporting date is recorded on the balance sheet.
- **Valuation and Allocation:** The assertion that assets, liabilities, and equity balances are included in the financial statements at appropriate amounts, and any resulting valuation or allocation adjustments are appropriately recorded. Inventory is valued at the lower of cost or net realizable value, and any obsolete or damaged items are properly written down.
- **Presentation and Disclosure:** The assertion that items in the financial statements are properly classified, described and disclosed. Inventory is correctly classified as a current asset on the balance sheet, and relevant disclosures about inventory valuation methods are included in the notes to the financial statements.

(2 relevant points @ 1 mark each = 2 marks)

ii) **Specific audit procedure Bashiru & Associates can perform to test that assertion for Shegu LTD's inventory balances**

**Existence:** Perform physical inventory counts. The audit team will visit Shegu LTD's warehouse and count the inventory items to verify that the quantities recorded in the inventory records actually exist.

**Rights and Obligations:** Review title documents and contracts. The auditors will examine purchase invoices, contracts, and other relevant documentation to confirm that Shegu LTD holds the legal title to the inventory and that it is not pledged as collateral.

**Completeness:** Trace inventory items from the warehouse to the accounting records. The auditors will select a sample of inventory items physically present in the warehouse and ensure that these items are recorded in the inventory ledger and financial statements.

**Valuation and Allocation:** Test inventory valuation. The auditors will verify the cost of inventory by examining purchase invoices and applying the company's inventory valuation method (e.g., FIFO, weighted average). They will also review net realizable value by comparing current selling prices to the cost to ensure inventory is valued at the lower of cost or net realizable value.

**Presentation and Disclosure:** Review financial statement disclosures. The auditors will examine the notes to the financial statements to ensure that inventory is properly classified

as a current asset and that disclosures about inventory accounting policies, valuation methods, and any obsolescence or write-downs are adequately described and complete.

**(2 relevant points @ 1.5 marks each = 3 marks)**

**b) Importance of planning to the external auditor**

- **Efficiency:** Planning allows auditors to organize their approach, ensuring that the audit is conducted in a structured and efficient manner. This includes determining the scope of the audit, identifying key risks and allocating resources effectively.
- **Risk Assessment:** Proper planning helps in identifying and assessing risks associated with the audit engagement. This allows auditors to focus on areas that are most susceptible to material misstatement, ensuring that the audit effort is directed where it matters most.
- **Compliance:** Planning ensures that the audit complies with relevant auditing standards and regulatory requirements. By establishing a clear plan, auditors can demonstrate that the audit was conducted in accordance with professional standards and ethical guidelines.
- **Resource Allocation:** Adequate planning help in the selection of staff with appropriate experience to ensure quality of the work.
- It allows for **Efficient Direction and Supervision** of staff. This allows for the audit to be done in effective and efficient manner.

**(5 points well explained @ 3 marks each = 15 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Most candidates performed well when discussing the **importance of audit planning**. Nevertheless, some were unable to:

- Identify and explain **key audit assertions related to inventory**.
- Describe **procedures for testing those assertions**.

## QUESTION FOUR

a)

### i) Importance of analytical procedures

- **At planning stage**, Analytical procedures help gain better understanding of the client entity and its business and identify high audit risk. Audit procedures can then be targeted at the areas of highest risk.
- **At the substantive procedure stage**, analytical procedures help identify possible material misstatements during the audit, rather than later.

(2 relevant points @ 2 marks each = 4 marks)

### ii) Limitations of analytical procedures

- The usefulness of analytical procedures depends on the quality of the underlying financial information. It is usual for the auditor to calculate financial ratios from the client's management accounts, which are more detailed than financial statements and can provide a source of more and better information.
- For comparison purposes, the information must be calculated on a consistent basis.
- The two figures used to calculate a ratio must be logically related.
- The auditor needs to understand the client's business, so that he is able to understand the potential significance of ratios or reasons for differences (for example, differences between one year and the next).
- Seasonality in business might make it difficult for auditors to estimate anticipated results when planning an audit. For example, an auditor might extrapolate January to October revenue to the end of the year in order to estimate annual revenue for a business. In the case of a gift shop where the majority of sales take place in December for the Christmas holiday, extrapolating January to October revenue would not give an accurate prediction of annual revenue to use in identifying audit risks.
- Data used in analytical procedures might not be reliable. Auditors should always consider the source of data and whether it might be subject to bias. For example, when using industry data to make comparisons between an audit client and industry.
- External data might not be readily available, for example to make comparisons between the audit client and industry.
- Analytical procedures rely on the professional judgment of the auditor. Auditors must be careful of confirmation bias when performing analytical procedures. This is where the auditor favours analytical procedures that confirm their existing beliefs. An auditor might overlook analytical procedures that do not support their assumptions about an audit client. For example, an auditor might identify different risks of material misstatement depending on whether they choose to look at revenue per square metre, revenue per month or revenue versus budget for an audit client in retail.
- One-off events can make annual comparisons or identification of trends difficult. For example, the economic impact of COVID-19 made it difficult to compare revenue year on year as businesses were forced to close.

(4 relevant points @ 1.5 marks each = 6 marks)

- b)
- i) Factors to be considered in the evaluation of identified control deficiencies
- Determine whether a deficiency in Internal Control over Financial Reporting (ICFR) exists and describe it.
  - Evaluate the severity of the deficiency individually, including process control activities, general IT controls, control environment, entity's risk assessment process, monitoring controls etc.
  - Evaluate the severity of similar deficiencies in aggregate
- (3 relevant points @ 1 mark each = 3 marks)**
- ii) Such issues should be communicated to those charged with governance.
- (2 marks)**
- c) We are required to accumulate and discuss misstatement identified during the audit with management other than those that are clearly trivial. Misstatements that are clearly trivial are misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.
- (5 marks)**
- (Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

A significant number of candidates had difficulty recognizing the role of **analytical procedures** during the planning and substantive stages. Many candidates also failed to state their limitations.

## QUESTION FIVE

### a) **Audit Procedure:**

- Review a sample of sales transactions and inspect the corresponding shipping documents to verify that products were dispatched.
- Trace transactions from the sales ledger to the customer orders and shipping records.
- Inquire with management and sales staff to understand the revenue recognition process.
- Perform confirmation procedures with customers to verify the accuracy and timing of sales recognition.

### **Implications of Recognizing Revenue Before Dispatch:**

- Violates the occurrence assertion as the revenue is recognized prematurely.
- May lead to overstated revenue and profits, causing financial misstatements.
- Could indicate weaknesses in internal controls, requiring further tests of controls for revenue recognition.

**(5 marks)**

### b) **Determining Sample Size:**

- The sample size depends on factors such as the assessed level of risk, the materiality of the transactions, the auditor's expectation of errors and the nature of the population.
- A higher risk of material misstatement or higher variability in the population would require a larger sample size to provide sufficient evidence.

**(5 marks)**

### c) **Performance audit and the elements of performance audit.**

Performance audits evaluate the efficiency, effectiveness, and economy of government programmes, projects and operations.

#### **Elements of performance audit**

##### **Economy**

The principle of economy means minimising the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price (ISSAI 300). Audits of economy may provide answers to questions such as: Do the means chosen or the equipment obtained-the inputs-represent the most economical use of public funds? Have the human, financial or material resources been used economically? Are the management activities performed in accordance with sound administrative principles and good management policies?

##### **Efficiency**

The principle of efficiency means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing. With efficiency, the main question is whether resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources. Are we getting the most output-in terms of quantity and quality from our inputs and actions? (ISSAI 3000)

### **Effectiveness**

The principle of effectiveness concerns meeting the objectives set and achieving the intended results.

Effectiveness is essentially a goal-attainment concept: Are the stipulated aims of the programme or activity being met by the means employed, the outputs produced and the impacts observed? Are the impacts observed really the result of the policy rather than other circumstances? The desired goals of a programme might be achieved, but the reasons for success in reaching these goals might not be the result of the programme. There might be a different cause.

**(1 mark for defining performance audit and 3 marks each for any 3 well explain objectives = 10 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Candidates who were well-prepared delivered solid responses and scored highly.

Conversely, some candidates:

- Lacked understanding of performance audit and confused **performance audit elements** with fundamental principles of auditing such as integrity and objectivity.
- Focused on **general sampling techniques**, without linking them to **purchase transactions**.

### **CONCLUSION AND RECOMMENDATIONS**

Tuition providers played a vital role in helping candidates succeed and should be commended for their efforts.

Going forward, tuition providers should:

- Address the identified weaknesses.
- Reinforce understanding of **audit assertions** and **procedures**.
- Use more **case-based assignments**, aligned with the revised syllabus structure.
- Increase the frequency of **mock exams** and use sample questions to improve readiness.
- Candidates are encouraged to utilize updated study texts and practice materials to enhance their performance in future examinations.