A. MULTIPLE CHOICE QUESTIONS (30%)

1. Which of the following is not a factor that relates to opportunities to commit fraudulent financial reporting?

A. Lack of controls related to the calculation and approval of accounting estimates
B. Ineffective oversight of financial reporting by the board of directors
C. Management's practice of making overly aggressive forecasts
D. High turnover of accounting, internal audit, and information technology staff

2. Fraud is more prevalent in smaller businesses and not-for-profit organizations because it is more difficult for them to maintain:

A. adequate separation of duties.
B. adequate compensation.
C. adequate financial reporting standards.
D. adequate supervisory boards.

3. Which of the following is a factor that relates to incentives or pressures to commit fraudulent financial reporting?

A. Significant accounting estimates involving subjective judgments
B. Excessive pressure for management to meet debt repayment requirements
C. Management's practice of making overly aggressive forecasts
D. High turnover of accounting, internal audit, and information technology staff

4. If the balance sheet of a private company is dated December 31, 2011, the audit report is dated February 8, 2012, and both are released on February 15, 2012, this indicates that the auditor has searched for subsequent events that occurred up to:

A. December 31, 2011.
B. January 1, 2012.
C. February 8, 2012.
D. February 15, 2012.

5. Which of the following is false concerning the principal audit firm's alternatives when issuing a report when another audit firm performs part of the audit?

A. Issue a joint report signed by both audit firms.
B. Make no reference to the other audit firm in the audit report, and issue the standard unqualified opinion.
C. Make reference to the other auditor in the report by using modified wording (a shared opinion or report).
D. A qualified opinion or disclaimer, depending on materiality, is required if the principal auditor is not willing to assume any responsibility for the work of the other auditor.

6. A qualified opinion can be issued for which of the following?

I. When a limitation on the scope of the audit has occurred
II. When the auditor lacks independence
III. When generally accepted accounting principles have not been used

A) I and II
B) I and III
C) II and III
D) I, II and III

7. According to the Principles section of the Code of Professional Conduct, all members:
A. should be independent in fact and in appearance at all times.
B. in practice should be independent in fact and in appearance at all times.
C. in practice should be independent in fact and in appearance when providing auditing and other attestations services.
D. in practice should be independent in fact and in appearance when providing auditing, tax, and other attestation services.

8. Which of the following loans would be prohibited between the auditor and an his audit client?
A. Automobile loans
B. Loans fully collateralized by cash deposits at the same financial institution
C. New home mortgage loans
D. Unpaid credit card balances not exceeding $10,000 in total

9. The responsibility for the preparation of the financial statements and the accompanying disclosures belongs to:
A. the auditor.
B. management.
C. both management and the auditor equally.
D. management for the statements and the auditor for the notes.

10. When using the cycle approach to segmenting the audit, the reason for treating capital acquisition and repayment separately from the acquisition of goods and services is that:
A. the transactions are related to financing a company rather than to its operations.
B. most capital acquisition and repayment cycle accounts involve few transactions, but each is often highly material and therefore should be audited extensively.
C. both A and B are correct.
D. neither A nor B is correct.

11. For audit evidence to be compelling to the auditor it must be sufficient and appropriate. Which statement below is not correct regarding the appropriateness of audit evidence?
A. The more effective the internal control system, the more assurance it provides the auditor about the reliability of financial reporting by the client.
B. An auditor's opinion, to be economically useful and profitable to the auditing firm needs to be formed within a reasonable time and based on evidence obtained that assures profits for the auditing firm.
C. Evidence obtained from independent sources outside the entity is generally more reliable than evidence secured solely within the entity.
D. The independent auditor's direct personal knowledge, obtained through inquiry, observation and inspection, is generally more persuasive than information obtained indirectly.

12. Which of the following statements is not a correct statement regarding audit evidence?
A. Evidence obtained from an independent source outside the client organization is more reliable than that obtained from within.
B. Documentary evidence is more reliable when it is received by the auditor indirectly rather than directly.
C. Documents that originate outside the company are considered more reliable than those that originate within the client's organization.
D. External evidence, such as communications from banks, is generally regarded as more reliable than answers obtained from inquiries of the client.

13. Evidence is usually more persuasive for balance sheet accounts when it is obtained:
A. as close to the balance sheet date as possible.
B. only from transactions occurring on the balance sheet date.
C. from various times throughout the client's year.
D. from the time period when transactions in that account were most numerous during the fiscal period.

14. The auditor is concerned that a client is failing to bill customers for shipments. An audit procedure that would gather relevant evidence would be to:
A. select a sample of duplicate sales invoices and trace each to related shipping documents.
B. trace a sample of shipping documents to related duplicate sales invoices.
C. trace a sample of Sales Journal entries to the Accounts Receivable subsidiary ledger.
D. compare the total of the Schedule of Accounts Receivable with the balance of the Accounts Receivable in the general ledger.

15. In what order should the following steps occur?
A. Assess client business risk
B. Understand the client's business and industry
C. Perform preliminary analytical procedures
D. Assess acceptable audit risk
A. D, B, C, A
B. B, A, C, D
C. B, D, A, C
D.) D, C, B, A

16. The auditor uses knowledge gained from the understanding of the client's business and industry to assess:
A. client business risk.
B. control risk.
C. inherent risk.
D. audit risk.

17. Which of the following normally signs the engagement letter for an audit of a private company?
A. Management
B. Board of directors representative

C. Audit committee representative
D. Corporate treasurer

18. Internal controls:
A. are implemented by and are the responsibility of the auditors.
B. consist of policies and procedures designed to provide reasonable assurance that the company achieves its objectives and goals.
C. guarantee that the company complies with all laws and regulations.
D. only apply to listed (public) companies.

19. Which of the following groups establishes and maintains the company's internal controls?
A. Internal auditors
B. Board of Directors
C. Management
D. Audit committee

20. An accountant's compilation report should be dated as the date of
A. Completion of fieldwork.
B. Completion of compilation.
C. Transmittal of the compilation report.
D. The latest subsequent event referred to in the notes to the financial statements.

B. TRUE & FALSE (20%)

1. **When other auditors are involved in the audit and they qualify their portion of the audit, the principal auditor must decide if the amount in question is material to the financial statements as a whole.**
   - True
   - False

2. **Objective evidence is more reliable, and hence more persuasive, than subjective evidence.**
   - True
   - False

3. **The two most important factors when determining the appropriate sample size in an audit are the auditor's expectation of misstatements and the objectivity of the evidence.**
   - True
   - False

4. **Obtaining sufficient appropriate evidence is essential if the CPA firm is to minimize legal liability.**
   - True
   - False

5. **If a prospective client has been audited in the past, the successor auditor will typically rely solely on the representations about the client by the predecessor auditor.**
- o True
- o False

6. **When a successor auditor requests information from a company's previous auditor, and there are legal problems or disputes between the client and the predecessor auditor, the predecessor auditor's response to the new auditor may be limited to stating that no information will be provided.**
- o True
- o False

7. **Auditing standards prohibit reliance on the work of internal auditors due to the lack of independence of the internal auditors.**
- o True
- o False

8. **To issue an unqualified opinion on internal control over financial reporting, there must be no identified material weaknesses and no restrictions on the scope of the audit.**
- o True
- o False

9. **Audit reports issued for financial statements of a public company should refer to generally accepted auditing standards in the scope paragraph**
- o True
- o False

10. **Independence is considered to be impaired if fees remain unpaid for professional services provided more than six months before the date of the current year's report.**
- o True
- o False

11. **When analytical procedures reveal unusual fluctuations in an account balance, the auditor will probably perform fewer tests of details for that account and increase the tests of controls related to the account**
- o True
- o False

12. **Two major factors that affect acceptable audit risk are the likely users of the financial statements and the likelihood of issuing an unqualified audit opinion**
- o True
- o False

13. **Generally, auditors assess inherent risk as moderate for related party transactions because they expect clients to be aware of their scrutiny of such transactions**
- o True
- o False

14. **One purpose of performing preliminary analytical procedures in the planning phase of an audit is to help the auditor make a preliminary assessment of control risk**
- o True
- o False

15. **If an auditor assigns a tolerable misstatement of $1,000 to accounts payable, he or she would need to obtain more audit evidence for that account than if $100,000 has been assigned**
- o True
- o False

16. **When the auditor decides to "audit around the computer", there is no need to test the client's IT controls or obtain an understanding of the client's internal controls related to the IT system.**
- o True
- o False

17. **Test of details of balances focus on beginning and ending of the year balances.**
- o True
- o False

18. **In the audit of public company, computer controls must be tested if they are considered to be key controls for reducing the likelihood of material misstatements in the financial statements**
- o True
- o False

19. **When a company prepares multi-copy, pre-numbered sates invoices at the time customer orders are received; there is a higher likelihood of failure to bill the customers than when sales invoices are prepared only after goods have been shipped**
- o True
- o False

20. **It is equally acceptable under professional auditing standards for auditors to use either statistical or non-statistical sampling methods**
- o True
- o False

C. Choose TWO out of the THREE below cases (25% each)

Case #1:

To support financial statement assertions, an auditor develops specific audit objectives. The auditor then designs substantive tests to satisfy or accomplish each objective. Items 1 through 7 represent audit objectives for the investments and accounts receivable. To the right of each set of audit objectives is a listing of possible audit procedures for that account. For each audit objective, select the audit procedure that would primarily respond to the objective. Each procedure can be selected once.

Audit procedures for investments

a. Determine that any impairments in the price of investments have been properly recorded.
b. Verify that transfers from the current to the noncurrent investment portfolio have been properly recorded.
c. Obtain positive confirmations as of the balance sheet date of investments held by independent custodians.

Audit objectives for investments

	A	B	C
1. Investments are properly described and classified in the financial statements			
2. Recorded investments represent investments actually owned at the balance sheet date.			
3. Trading investments are properly valued at fair market value at the balance sheet date.			

Audit procedures for accounts receivable

a. Perform sales cutoff tests to obtain assurance that sales transactions and corresponding entries for inventories and cost of goods sold are recorded in the same and proper period.
b. Review the aged trial balance for significant past due accounts.
c. Review loan agreements for indications for indications of whether accounts receivable have been factored or pledged.
d. Review the accounts receivable trial balance for amounts due from officers and employees.

Audit objectives for accounts receivable

	A	B	C	D
4. Accounts receivable represent all amounts owed to the entity at the balance sheet date.				
5. The entity has legal right to all accounts receivable at the balance sheet date.				
6. Accounts receivable are stated at net realizable value.				
7. Accounts receivable are properly described and presented in the financial statements.				

Case # 2

In November 2017, the head office of XYZ was damaged by a fire. Many of the company's accounting records were destroyed before the audit for the year ended on December 31, 2017 took place. The company's financial accountant has prepared financial statements for the year ended 31 December 2017 on the basis of estimates and the information he has been able to recover. You have completed the audit of these financial statements but have not been able to obtain sufficient audit evidence in all areas.

Required:

(a) Draft, for inclusion in the auditor's report, wording appropriate to XYZ.

Note: You are not required to reproduce the auditor's report in full. Only the differences for an unmodified report were required.

(b) Explain and distinguish between the following forms of modified report.

(i) Emphasis of matter;
(ii) qualified opinion;
(iii) disclaimer of opinion;
(iv) adverse opinion.

Case #3:

Prepare an audit plan for a verification of a cash cycle.

The audit plan should include all 5 assertions. For each assertion, you should choose 2 audit steps.

Good Luck