

**A. MULTIPLE CHOICE QUESTIONS (30%)**

1. **Which of the following audit procedures for obtaining audit evidence is correctly described?**
  - a. Recalculation involves the auditor's independent execution of procedures or controls which were originally performed as part of the entity's internal control
  - b. Confirmation consists of seeking information of knowledgeable persons, within the company or outside the company
  - c. Reperformance consists of checking the mathematical accuracy of documents or records
  - d. Observation consists of looking at a procedure or process being performed by others
  
2. **Auditors are required to undertake an overall review of the financial statements as the final step before they form their audit opinion. As part of this process they undertake a number of procedures.**

**Which of the following procedures would an auditor NOT undertake as part of the overall review of the financial statements?**

- a. Reviewing the financial statements to ensure they are consistent with the auditor's knowledge of the business and the results of their audit work
  - b. Performing analytical procedures on the financial statements to form an overall conclusion on the financial statements
  - c. Undertaking a review of subsequent events to identify whether any adjustment or disclosure is required in the financial statements
  - d. Reviewing the financial statements to ensure compliance with accounting standards and local legislation Disclosure
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3. **Which of the following statements, relating to International Standards on Auditing (ISAs), if any, is/are correct?**
    - (1) International Standards on Auditing (ISAs) are issued by the International Accounting Standards Board (IASB) and provide guidance on the performance and conduct of an audit
    - (2) In the event that ISAs differ from local legislation in a specific country, auditors must comply with the requirements of the ISAs
    - a. 1 only
    - b. 2 only
    - c. Both 1 and 2
    - d. Neither 1 nor 2
  
  4. **Which TWO of the following statements regarding the use of analytical procedures during the PLANNING stage of the audit are correct?**
    - (1) Analytical procedures are useful when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the company
    - (2) Analytical procedures can be used to obtain relevant and reliable audit evidence
    - (3) Analytical procedures can assist in identifying the risks of material misstatement
    - (4) Analytical procedures can assist in identifying unusual transactions and events

- a. 1 and 2
  - b. 2 and 3
  - c. 3 and 4
  - d. 2 and 4
5. **Which of the following substantive procedures provides evidence over the COMPLETENESS of non-current assets?**
- a. Select a sample of assets included in the non-current asset register and physically verify them at the client premises
  - b. Review the repairs and maintenance expense account to identify any items of a capital nature
  - c. For assets disposed of, agree the sale proceeds to supporting documentation and cash book
6. **Which of the following is a substantive audit procedure for wages and salaries?**
- a. Inspect a sample of clock cards for evidence of authorisation by a responsible official
  - b. Recalculate a sample of payroll deductions such as employment taxes to confirm accuracy
  - c. Attempt to access and make changes to the payroll master file using the log on for a junior clerk
7. **Which of the following statements, relating to the auditor's responsibilities regarding subsequent events, if any, is/are correct?**
- (1) Auditors do not have a responsibility to perform procedures to identify subsequent events after the date of the auditor's report
  - (2) Where a material adjusting subsequent event is identified after the financial statements are issued, but prior to approval by the shareholders, the auditor should include a qualified opinion in their audit report if management refuses to adjust the financial statements for the event
- a. 1 only
  - b. 2 only
  - c. Both 1 and 2
  - d. Neither 1 nor 2
8. **Which TWO of the following controls of a sales system ensure that all goods despatched are completely and accurately invoiced?**
- (1) Goods despatched notes are matched to sales invoices
  - (2) Sales invoices are sequentially numbered
  - (3) Sales invoices are matched to customer orders
  - (4) Regular review of unfulfilled orders
- a. 1 and 2
  - b. 2 and 4
  - c. 2 and 3
  - d. 1 and 4

9. **Which TWO of the following should be included in an audit engagement letter?**
- (1) Objective and scope of the audit
  - (2) Results of previous audits
  - (3) Management's responsibilities
  - (4) Need to maintain professional scepticism
- a. 1 and 2  
b. 1 and 3  
c. 2 and 4  
d. 3 and 4
10. **Auditors have a professional duty of confidentiality under the Code of Ethics and Conduct; voluntary disclosure of information may be necessary in certain situations. For which TWO of the following situations should an auditor make VOLUNTARY disclosure?**
- (1) If an auditor knows or suspects his client is engaged in money laundering
  - (2) Where disclosure is made to non-governmental bodies
  - (3) Where it is in the public interest to disclose
  - (4) If an auditor suspects his client has committed terrorist offences
- a. 1 and 4  
b. 1 and 3  
c. 2 and 4  
d. 2 and 3
11. **Which TWO of the following substantive procedures provide evidence over the EXISTENCE of trade receivables?**
- (1) Agreeing a sample of goods despatched notes to sales invoices and to the sales ledger
  - (2) Undertaking a receivables circularisation
  - (3) Review of post year-end cash receipts, if these relate to year-end receivables follow through to the sales ledger
  - (4) Recalculating the allowance for uncollectible accounts
- a. 1 and 3  
b. 2 and 4  
c. 2 and 3  
d. 1 and 4
12. **Which of the following is NOT a responsibility of the auditor?**
- a. To provide an opinion on the truth and fairness of the financial statements
  - b. To conduct an audit in accordance with International Standards on Auditing
  - c. To express an opinion on the company's going concern status
13. **Which of the following procedures are TESTS OF CONTROL an auditor should perform in testing the inventory cycle of their client whilst attending the inventory count?**
- (1) Observe whether the client's staff are following the inventory count instructions
  - (2) Review inventory present in the warehouse for evidence of damage or obsolescence
  - (3) Obtain a sample of the last goods received notes and goods despatched notes and follow through to ensure inclusion in the correct accounting period

- (4) Inspect and review management's inventory count instructions
- a. 2 and 3
  - b. 1 and 4
  - c. 1 and 2
  - d. 3 and 4

**14. Which of the following is NOT an audit software technique?**

- a. Using computer programs to extract a sample for a receivables circularisation
- b. Running a computer program to test the addition of the cash book
- c. Using a computer to perform an analytical review comparison of administration expenses against the prior year
- d. Entering a sample of dummy sales orders through the computer system which takes customers over their credit limit to ensure the system rejects the orders

**15. Which of the following statements, if any, is/are correct?**

- (1) Internal auditors should report to the finance director as they understand internal controls and are best placed to implement any recommendations in a timely manner
- (2) Companies are not required to establish and maintain an internal audit function
- a. 1 only
  - b. 2 only
  - c. Both 1 and 2
  - d. Neither 1 nor 2

**16. Which of the following statements, relating to the auditor's reporting responsibilities for going concern, if any, is/are correct?**

- (1) Where management is unwilling to make their assessment of the company's ability to continue as a going concern, the auditor should include an emphasis of matter paragraph in the audit report
- (2) Where the use of the going concern assumption is inappropriate, the auditor should include a qualified opinion in the audit report
- a. 1 only
  - b. 2 only
  - c. Both 1 and 2
  - d. Neither 1 nor 2

**17. The following are statements about the assurance report given on financial information:**

- (1) It enhances the credibility of the information being reported
- (2) It reduces the risk of management bias in the information being reported upon.
- (3) It attests to the correctness of the information being reported upon.
- (4) It draws the attention of the user to deficiencies in the information being reported upon

**Which of the above are benefits of an assurance report on financial information?**

- a. 1, 2 and 3 only
- b. 2, 3 and 4 only
- c. 1, 2 and 4 only
- d. 1, 3 and 4 only

**18. The process of documenting, evaluating and testing an internal control system will involve several stages, including:**

- (1) Testing of controls.
- (2) Documenting the system and its controls.
- (3) Walk through testing
- (4) Evaluation of existence (or lack) of key controls.

The correct sequence of the various stages is extremely important since the relevant action at one stage will frequently be dependent upon the results of the previous stage.

What appropriate sequence of the four stages given above?

- a. 2, 3, 4, 1
- b. 3, 2, 4, 1
- c. 2, 4, 3, 1
- d. 2, 3, 1, 4

**19. In which of the following situations may confidential information can be disclosed only with the permission of the client?**

- a. As a defense in a negligence claim.
- b. In order to avoid giving an inappropriate audit opinion to another client
- c. Where money laundering is suspected.
- d. Where terrorism is suspected.

**20. The following are standard deliverables to or from the auditor.**

- (1) Engagement letter
- (2) Written representations
- (3) Auditor's report
- (4) Bank confirmation letter
- (5) Communication on internal control (deficiency/ management letter)

**Which deliverables contain details of the auditor's and management's responsibilities?**

- a. 1 and 3 only.
- b. 2, 4 and 5 only.
- c. 3, 4 and 5 only.
- d. 1, 2 and 3 only.

**B. TRUE & FALSE (18%)**

- 1. Changes in accounting estimates require the auditor to issue a modified unqualified audit report with a consistency paragraph inserted after the opinion paragraph.**
  - True
  - False
  
- 2. Confirmations are ordinarily used to verify account balances, but may be used to verify transactions.**
  - True
  - False
  
- 3. In applying the audit risk model, auditors are concerned about overstatements, not understatements.**
  - True
  - False
  
- 4. Auditing standards prohibit reliance on the work of internal auditors due to the lack of independence of the internal auditors.**
  - True
  - False
  
- 5. The assessment of control risk is the measure of the auditor's expectation that internal controls will prevent material misstatements from occurring or detect and correct them if they have occurred.**
  - True
  - False
  
- 6. The scope of the auditor's report on internal control is limited to obtaining reasonable assurance that significant weaknesses in internal control are identified.**
  - True
  - False
  
- 7. Control risk is generally set at minimum for most private companies.**
  - True
  - False
  
- 8. Depreciation expense is normally verified as a part of tests of details of balances rather than as part of tests of controls or substantive tests of transactions**
  - True
  - False
  
- 9. When auditing insurance expense, auditors normally rely on analytical procedures and limited testing of the debits to ensure that they arose from credits to prepaid insurance.**
  - True

- False
- 10. Planning the audit facilitates obtaining appropriate audit evidence and managing audit costs, but it does not reduce misunderstandings with the client.**
  - True
  - False
- 11. Typically, analytical procedures are the primary means of verifying income statement accounts resulting from allocations.**
  - True
  - False
- 12. Often auditors base their anticipated reliance on the internal control structure on prior year findings.**
  - True
  - False
- 13. Auditors would seldom plan an audit without having any idea of where the potential misstatements may exist in the financial statement.**
  - True
  - False
- 14. Normally, auditors obtain evidence of inventory obsolescence by observation and inquiry.**
  - True
  - False
- 15. If after delivering an audit report an auditor determines that a necessary audit procedure was omitted, he or she should perform it in the next audit.**
  - True
  - False
- 16. Substantive tests are those tests which are designed to identify monetary errors in the financial statements.**
  - True
  - False
- 17. Audit procedures on the sample item will not vary as a result of using either statistical or non-statistical sampling.**
  - True
  - False
- 18. Audit risk is a function of two components, inherent and control risk.**
  - True
  - False

**C. Answer the FOUR below cases**

**Case #1 (15%):**

In applying audit procedures and evaluating the results of those procedures, auditors may encounter specific information that may raise a question concerning the existence of illegal acts and related-party transactions. Indicate whether each of the following is more likely related to an illegal act (IA) or a related party transaction (RP).

<u>Statement:</u>	<u>IA</u>	<u>RP</u>
1. A note payable has an interest rate well below the market rate at the time at which the loan was obtained		
2. The company has a properly documented loan but the loan has no scheduled repayment terms		
3. Unexplained payments have been made to government officials.		
4. The company exchanged certain real estate property for similar real estate property.		
5. Large cash receipts near year end have been received based on cash sales for which there is no documentation.		

**Case # 2 (15%)**

The fieldwork for the December 31, 2015 audit of SARA S.A.L. ended on March 17, 2016. The financial statements and auditor's report were issued and mailed to stockholders on March 29, 2016. In each of the material situations (1 through 5) below, indicate the appropriate action (a, b, c, d, or e). The possible actions are as follows:

- a. Adjust the December 31, 2015 financial statements.
- b. Disclose the information in a footnote in the December 31, 2015 financial statements.
- c. Request the client revise and reissue the December 31, 2015 financial statements. The revision should involve an adjustment to the December 31, 2015 financial statements.
- d. Request the client revise and reissue the December 31, 2015 financial statements. The revision should involve the addition of a footnote, but no adjustment, to the December 31, 2015 financial statements.
- e. No action is required.

**The situations are as follows:**

1. \_\_\_\_\_ On April 5, 2016, you discovered that, on February 16, 2016 a flood destroyed the entire uninsured inventory in one of SARA S.A.L.'s warehouses.
2. \_\_\_\_\_ On February 17, 2016, you discovered that, on February 16, 2016, a flood destroyed the entire uninsured inventory in one of SARA S.A.L.'s warehouses.
3. \_\_\_\_\_ On February 17, 2016, you discovered that, on November 30, 2015, a flood destroyed the entire uninsured inventory in one of SARA S.A.L.'s warehouses.



4. \_\_\_\_\_ On April 5, 2016, you discovered that, on March 30, 2016, a fire destroyed one of SARA S.A.L.'s 13 plants.

5. \_\_\_\_\_ On April 7, 2016, you discovered that a debtor of SARA S.A.L. went bankrupt on January 6, 2016, due to gradual declining financial health.

**Case #3 (12%):**

Below are three audit procedures, all of which are tests of transactions associated with the audit of the acquisition and payment cycle. Also below are the six general transaction-related audit objectives and the five management assertions. For each audit procedure, indicate (1) its audit objective, and (2) the management assertion being tested.

<u>Audit Objectives</u>		<u>Assertions</u>	
A.	Occurrence	V.	Occurrence
B.	Completeness	W.	Completeness
C.	Accuracy	X.	Accuracy
D.	Posting and summarization	Y.	Classification
E.	Classification	Z.	Cutoff
F.	Timing		
1.	Foot the purchases journal and trace the totals to the related general ledger accounts. (1) ____. (2) ____.		
2.	Recompute the cash discounts taken by the client. (1) ____. (2) ____.		
3.	Examine supporting documentation for a sample of transactions for authorized payee and amount and to determine services or goods were received. (1) ____ . (2) ____ .		

**Case #4 (10%):**

**You are about to issue the auditor's report for Exmouth Co, a listed client. Half way through the year the company suffered a major computer systems failure which destroyed the accounting records for the year to date. Backups had not been kept and so the company has had to reconstruct the figures for the first six months.**

**(1) Which opinions are most appropriate for Exmouth Co?**

- a. Qualified or adverse
- b. Unmodified or adverse
- c. Unmodified or disclaimer
- d. Qualified or disclaimer

**(2) What is the purpose of the basis for opinion paragraph in an unmodified report?**

- a. To state the opinion on the financial statements.
- b. To confirm the audit has been conducted in accordance with ISAs and ethical requirements.
- c. To highlight a material uncertainty relating to going concern which has been adequately disclosed.
- d. To highlight management's responsibilities to users of the financial statements.

**(3) Which of the following shows the correct order of the elements to be included in the auditor's report of Exmouth Co?**

- a. Opinion, date, auditor's address, signature.
- b. Title, opinion, signature, key audit matters.
- c. Addressee, opinion, auditor's responsibilities, date.
- d. Responsibilities of management, basis for opinion, date, addressee.

**(4) Which of the following describes the wording of a disclaimer of opinion?**

- a. The financial statements give a true and fair view
- b. The financial statements do not give a true and fair view
- c. The auditor does not express an opinion on the financial statements
- d. Except for the matter described, the financial statements give a true and fair view.

**(5) Which of the following statements is correct in relation to the auditor's report of Exmouth Co?**

- a. The Key Audit Matters section should be used to describe the matter giving rise to the modified opinion, in this case that the auditor has been unable to obtain sufficient appropriate evidence.
- b. If a disclaimer of opinion is to be used, the Key Audit Matters section should not be included in the auditor's report as to do so may suggest other aspects of the financial statements are reliable.
- c. An Emphasis of Matter paragraph should be included to draw the attention to the inability to obtain sufficient appropriate evidence.
- d. The auditor will conclude that the financial statements do not give a true and fair view.

*Good Work*