I - MULTIPLE CHOICE QUESTIONS (50%)

1	B	11	A	21	B	31	D	41	A
2	B	12	B	22	B	32	A	42	D
3	B	13	B	23	C	33	A	43	B
4	A	14	A	24	A	34	C	44	D
5	A	15	D	25	A	35	A	45	B
6	B	16	B	26	D	36	C	46	C
7	A	17	D	27	A	37	D	47	C
8	C	18	D	28	C	38	C	48	B
9	C	19	C	29	B	39	D	49	C
10	B	20	C	30	D	40	C	50	D

II- TRUE OR FALSE (10%)

1	FALSE	6	FALSE
2	TRUE	7	FALSE
3	TRUE	8	FALSE
4	FALSE	9	FALSE
5	FALSE	10	FALSE

III- SHORT QUESTIONS (Please answer in bullet points) (15%)

Question 1:

A financial statement audit typically consists of four phases. Identify each of these four phases of an audit and discuss the major activities performed by the auditor in each phase.

Answer:

Phase I: Plan and design an audit approach. In this phase, the auditor obtains an understanding of the client's entity and its environment. In addition, the auditor obtains an understanding of the client's internal control and assesses the risk of material misstatement.

Phase II: Perform tests of controls and substantive tests of transactions. In this phase, the auditor tests those internal controls he/she believes may be effective at preventing or detecting misstatements. In addition, the auditor performs substantive tests of transactions to verify the monetary amounts of transactions.

Phase III: Perform analytical procedures and tests of details of balances. In this phase, the auditor performs analytical procedures to assess the overall reasonableness of transactions and balances. In addition, tests of details of balances are performed to test for monetary misstatements in the financial statements.

Phase IV: Complete the audit and issue an audit report. In the last phase of the audit, the information obtained in the previous phases is combined to reach an overall conclusion as to whether the financial statements are fairly presented. An audit report is then issued based on this conclusion.

Question 2:

ISA 700 *Forming an Opinion on Financial Statements* provides guidance on the form and content of the auditor's report and should contain a number of elements.

Required:

Name **eight** elements of an unmodified auditor's report.

Answer:

Audit report elements:

Title: The title should clearly indicate that it is the report of an independent auditor; this distinguishes the report from any other.

Addressee: The auditor's report should be addressed as required by the circumstances of the engagement. This is determined by law or regulation but is usually to the shareholders.

Introductory paragraph: This identifies the entity, whose financial statements have been audited, states that the financial statements have been audited, identifies the title of each statement that comprises the financial statements, refers to the summary of significant policies and other explanatory information, and specifies the date or period covered by each financial statement.

Management's responsibility for the financial statements: This description includes an explanation that management is responsible for the preparation of the financial statements in accordance with applicable financial reporting framework, and for such internal control that management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due fraud or error.

Auditor's responsibility: This states that responsibility of the auditor is to express an opinion on the financial statements based on the audit and that the audit was conducted in accordance with International Standards on Auditing and ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinion paragraph: When expressing an unmodified opinion, this states that the financial statements "present fairly" or "give a true and fair view" in accordance with the applicable financial reporting framework.

Other reporting responsibilities: If addressed in the auditor's report, these are explained in a separate section "Report on Other Legal and Regulatory Requirements".

Signature of the auditor: The auditor's report must be signed. This is the personal name of the auditor or, if a partner is signing on behalf of the audit firm, the name of the audit firm.

Date of the auditor's report: This must be no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.

Question 3:

Describe **three** situations in which the integrity of the auditor may be under threat.

Answer:

Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

Self-interest - **Self-review** - **Advocacy** - **Familiarity** - **Intimidation**

IV- CASES (25%)

Case I (10%)

1	D
2	B
3	A
4	E
5	C

Case II (15%)

Below are five 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.

Audit Objectives		**Assertions**	
A.	Occurrence	V.	Occurrence
B.	Completeness	W.	Completeness
C.	Accuracy	X.	Accuracy
D.	Posting and summarization	Y.	Classification
E.	Classification	Z.	Cutoff
F.	Timing		

Answers	
	1. Foot the purchases journal and trace the totals to the related general ledger accounts.
D	(1) ____.
X	(2) ____.
	2. Recompute the cash discounts taken by the client.
C	(1) ____.
X	(2) ____.
	3. Examine supporting documentation for a sample of transactions for authorized payee and amount and to determine services or goods were received.
A	(1) ____ .
V	(2) ____ .