MULTIPLE CHOICE QUESTIONS (40%)

1	D
2	B
3	B
4	C
5	B
6	D
7	D
8	C
9	D
10	B
11	A
12	D
13	B
14	B
15	B
16	D
17	A
18	D
19	D
20	D

21	C
22	B
23	C
24	A
25	C
26	D
27	B
28	C
29	D
30	B
31	B
32	B
33	A
34	C
35	D
36	C
37	D
38	D
39	B
40	A

TRUE & FALSE (10%)

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

11	FALSE
12	TRUE
13	TRUE
14	FALSE
15	FALSE
16	TRUE
17	FALSE
18	FALSE
19	FALSE
20	FALSE

SMALL ESSAY QUESTIONS (30%)

Answer the following

I - Explain the purpose of testing the client's bank reconciliation, and discuss **five** audit procedures involved.

The purpose of testing the client's reconciliation is to verify whether the client's recorded bank balance is the same amount as the actual cash in the bank. Procedures include:

- Verify that the client's bank reconciliation is mathematically accurate.
- Trace the balance on the cutoff statement to the balance per bank on the bank reconciliation.
- Trace checks included with the cutoff bank statement to the list of outstanding checks on the bank reconciliation and to the cash disbursements records.
- Investigate all significant checks included on the outstanding checks list that have not cleared the bank as of the cutoff statement.
- Trace deposits in transit to the subsequent bank statement.
- Account for other reconciling items on the bank statement and bank reconciliation.

II.

A. Tell whether each of the following is fraud or error:

---------Error-------------------Mathematical or clerical mistakes in collecting or processing.

----------- Error ----------------- Misapplication of accounting policies.

-----------Fraud----------------- Suppression or omission of effects of transactions form records of documents.

B- Give five factors that could affect the auditor's ability to detect fraud

1. Skill of the fraudster
2. Frequency and extent of the fraud
3. Degree of collusion
4. Relative size of individual amounts involved
5. Seniority of those involved

III - Numbering the stages of an audit process from 1 to 9:

______**8**______Obtain management representations

______**6**______Substantive work

____**2**_______Planning

____**5**_______Control effectiveness

____**1**_______Engagement letter

____**7**_______Review and finalization procedures

____**4**_______Understanding internal controls

____**3**_______Assess risk

____**9**_______Sign auditor's report

IV - Indicate *four* violations in the scenario.

• Roudaina is not competent and does not have adequate training and proficiency in auditing.

• Roudaina is not objective as there is a monetary incentive (contingent fee) to provide an unqualified opinion.

• Roudaina does not have an objective state of mind due to her close relationship with the audit client, who is her brother.

• Roudaina is not showing due care in hiring her niece to assist in the audit of her brother's company.

V- Discuss the audit issues to be considered and their likely impact on the audit opinion to be issued. Justify your answer.

LIFO is not a permitted method to account for stock under IAS 2 or SSAP 9, Accounting for Stock and Long-term-contracts. The difference between Shark Ltd using LIFO and FIFO has a material effect on the closing inventory account balance and on the income and expenditure statement. You would request Shark's management to change its stock valuation method to FIFO (or another acceptable method according to IAS2/SSAP 9). If management disagree with you over this matter you would probably issue an 'except for' audit opinion. This audit opinion is issued when the auditor in his or her report can readily explain the nature of the disagreement and its impact on the financial statements.

VI - Match the assertion with the most appropriate audit procedure:

a. Confirm accounts receivable and perform alternative procedures for confirmations not returned_____**Existence**________

b. Obtain last bill of lading for the period and determine that all shipments were recorded______**Completeness**_______

c. Review minutes of the board of director's meetings, inquire of client, read contracts and agreements, and confirm with lenders any indications that accounts have been assigned, sold, or pledged___**Rights & Obligations**__________

d. Review the financial statements and perform analytical procedures to determine whether accounts are classified and disclosed in accordance with International Financial Reporting Standards_____**Presentation & disclosures**________

e. Test the adequacy of the allowance for uncollectible accounts___**Valuation & Allocation**__________

CASE STUDY (20%) Choose one out of two:

Case 1 -

Deficiency	Implication	Recommendation
Purchase orders are manually numbered.	Orders could be placed on duplicated purchase order numbers. These could be placed with a supplier without authorization.	Use a pre-numbered purchase orders to ensure that all orders can be sequentially controlled (including those that are cancelled before the order dispatch). Regular sequence checks should be carried out to identify unfulfilled orders so that the appropriate action can be taken.
Only a photocopy of the original purchase order is made.	If a copy is not made or is subsequently altered, incorrect quantities of goods may be accepted.	Multi-part, pre-numbered order sets should be used: 1. Retained in the purchasing department; 2. Sent to the inventory clerk to conform the order has been placed; 3. Sent to the warehouse; and 4. Sent to the accounts department.
The warehouse has no notification of what has been ordered.	The warehouse may accept goods that have not been ordered. This would incur additional liabilities and/or costs in returning goods.	The warehouse should receive a copy of the purchase order. The warehouse manager should agree goods received (description and quantity) to an authorized purchase order before accepting them.
Orders do not show the agreed price of the goods from the supplier.	Incorrect prices charged by suppliers may go unnoticed and result in overpayment for the goods received.	The agreed price for the goods ordered (e.g. according to the supplier's catalogue) should be recorded on the purchase order. A higher price on a purchase invoice can then be disputed.
Purchase orders are placed without authorization	Unauthorized or incorrect purchase could be made committing the company to goods it does not require or unfavorable payment terms.	Mr. Saab should sign orders as evidence of authorization. This should mean that the goods are required (e.g. from requisitions, budgets, inventory records) and that the price is agreed.

Goods are stored on receipt before any checks are made.	The company may incur liability for goods that have not been ordered (e.g. an over delivery) or are damaged. Costs will be incurred unnecessarily to rectify such situations.	Goods should be physically inspected by the warehouse supervisor and agreed to the purchase order before they are accepted. The warehouse supervisor should complete a pre-numbered, multi-part Goods Received Note (GRN): 1. to update order files so that outstanding orders can be identified; 2. to be agreed to the purchase invoice; and 3. to update the inventory records.
Inventory records are updated on the basis of supplier's dispatch notes.	The inventory records will be inaccurate if goods and/or quantities according to the dispatch notes do not agree to those physically received. Understated inventory quantities may result in goods being ordered that are not needed (incurring costs of holding unnecessary excess). Overstated inventory quantities may result in "stock-outs" incurring costs of emergency replenishment).	Inventory records should be updated on the basis of actual goods received as confirmed by the GRN raised by the warehouse supervisor.

Case 2-

1. The report should not be addressed to the management but instead to the board of directors and/or stockholders. **Correct**
2. The accountant's responsibilities should precede the responsibilities of management in the introductory paragraph **Incorrect**
3. Each financial statement audited should be specifically identified in the introductory paragraph of the auditor's report. **Correct**

4. The wording for the responsibilities of management is that for a review report, not an audit report. **Incorrect**
5. There should be a statement in the second paragraph that the auditor has a responsibility to search for misstatements and fraud in the financial statements.
6. There should be a statement in the second paragraph that the financial statements are free of material misstatement **Correct**
7. There should be an indication that an audit also includes assessing the significant estimates made by management. **Correct**
8. The term "overall report should be considered as qualified" should be deleted. **Correct**
9. There should be a reference to "conformity with International Financial Reporting Standards" in the fifth paragraph. **Correct**
10. The report should be signed and dated December 31, 2013. **Incorrect**

a) What other deficiencies exist in the format and content in this report? Prepare a short listing of what has been noted by you.

1- Addressed to Management not to shareholders.
2- The name of the financial statement that were audited must be clearly specified.
3- Management responsibility must be in another paragraph.
4- Management is responsible for the financial statements. That must be clearly noted not only that the financial statements are the representation of the management.
5- There is no mention of the internal controls which must be clearly stated. The audit report must include the following: "The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control".
6- A qualification for the year 2012 was included in year 2013 which is must eliminated.
7- There was a paragraph stating the opinion for year 2012 and the audit report for that year was already issued. There must be no mention about year 2012 opinion.
8- The opinion was for year 2013 alone for the related Statement of income, retained earnings, and cash flows for the year ended December 31, 2013 while the opinion was rendered for the balance sheet for two years ie December 31, 2013 and 2012.
9- The auditor does not render an opinion on the retained earnings but on the Statement of Changes in Shareholders' Equity
10- The last sentence in the last paragraph noted that the … in conformity with the International Standards on Auditing." While they must be "… in accordance with International Financial Reporting Standards".
11- The opinion issued in year 2012 as noted was unqualified. The auditor can't change the opinion to a qualified one and mainly must not render an opinion on year 2012 accounts.