

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS  
JANUARY 2024 – AUDIT EXAM

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

**1. Which of the following loans would be prohibited between the auditor and 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

**2. 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.

**3. In which situation would the auditor be choosing between "except for" qualified opinion and an adverse opinion?**

- A. The auditor lacks independence.
- B. A client-imposed scope limitation
- C. A circumstance imposed scope limitation
- D. Lack of full disclosure within the footnotes

**4. A related party transaction may be indicated when another company:**

- A. subsidizes certain operating expenses of the company.
- B. purchases its securities at their fair value.
- C. loans to company at market rates.
- D. has had a distributor relationship with the company for 10 years.

**5. Management's attitude toward aggressive financial reporting and its emphasis on meeting projected profit goals most likely would significantly influence an entity's control environment when**

- A. The audit committee is active in overseeing the entity's financial reporting policies.
- B. External policies established by parties outside the entity affect its accounting practices.
- C. Management is dominated by one individual who is also a shareholder.
- D. Internal auditors have direct access to the board of directors and entity management.

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**6. When there is uncertainty about a company's ability to continue as a going concern, the auditor's concern is the possibility that the client may not be able to continue its operations or meet its obligations for a "reasonable period of time." For this purpose, a reasonable period of time is considered not to exceed:**

- A. six months from the date of the financial statements.
- B. one year from the date of the financial statements.
- C. six months from the date of the audit report.
- D. one year from the date of the audit report.

**7. When dealing with materiality and scope limitation conditions:**

- A. a disclaimer of opinion must be issued.
- B. it is easier to evaluate the materiality of potential misstatements resulting from a scope limitation than for failure to follow IFRS.
- C. scope limitations imposed by the client are always considered material.
- D. a unqualified opinion may still be issued depending on the materiality of the scope limitation.

**8. In testing for cutoff, the objective is to determine:**

- A. whether all of the current period's transactions are recorded.
- B. whether transactions are recorded in the correct accounting period.
- C. the proper cutoff between capitalizing and expensing expenditures.
- D. the proper cutoff between disclosing items in footnotes or in account balances

**9. Which of the following is the primary basis used to decide materiality for a for-profit entity?**

- A. Net sales
- B. Net assets
- C. Net income before tax
- D. All of the above

**10. 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

**11. Auditing standards require that the examination of financial statements is to be performed by a person or persons having adequate technical training and**

- A. Independence with respect to the financial statements and supplementary disclosures.
- B. Exercising professional care as judged by peer reviewers.
- C. Proficiency as an auditor which likely has been acquired from previous experience.
- D. Objectivity as an auditor as verified by proper supervision

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**12. The auditor faces a risk that the examination will not detect material misstatements which occur in the accounting process. In regard to minimizing this risk, the auditor primarily relies on**

- A. Substantive tests.
- B. Tests of controls.
- C. Internal control.
- D. Statistical analysis.

**13. An independent auditor finds that a corporation occupies office space, at no charge, in an office building owned by a shareholder. This finding indicates the existence of**

- A. Management fraud.
- B. Related-party transactions.
- C. Window dressing.
- D. Weak internal control

**14. When making a review of interim financial information the auditor's work consists primarily of**

- A. Studying and evaluating limited amounts of documentation supporting the interim financial information.
- B. Scanning and reviewing client-prepared, internal financial statements.
- C. Making inquiries and performing analytical procedures concerning significant accounting matters.
- D. Confirming and verifying significant account balances at the interim date.

**15. Most of the independent auditor's work in formulating an opinion on financial statements consists of**

- A. Considering internal control.
- B. Obtaining and examining evidential matter.
- C. Examining cash transactions.
- D. Comparing recorded accountability with assets.

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**16. 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

**17. 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

**18. 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

**19. 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

**20. 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

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**B. TRUE & FALSE (30%)**

- 1. 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.**
  - True
  - False
  
- 2. Auditing standards prohibit reliance on the work of internal auditors due to the lack of independence of the internal auditors.**
  - True
  - False
  
- 3. 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**
  - True
  - False
  
- 4. Test of details of balances focus on beginning and ending of the year balances.**
  - True
  - False
  
- 5. It is equally acceptable under professional auditing standards for auditors to use either statistical or non-statistical sampling methods**
  - True
  - False
  
- 6. Changes in accounting estimates requires the auditor to issue a modified unqualified audit report with a consistency paragraph inserted after the opinion paragraph.**
  - True
  - False
  
- 7. A qualified report can take the form of a qualification due to both a scope limitation or a misstatement or any of the above alone.**
  - True
  - False

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- 8. Confirmations are ordinarily used to verify account balances, but may be used to verify transactions.**
- True
  - False
- 9. 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.**
- True
  - False
- 10. The quick ratio has the same denominator as the current ratio.**
- True
  - False
- 11. Review reports are normally dated as of the client's balance sheet date.**
- True
  - False
- 12. Of the three types of attestation engagements, examination engagements provide a higher level of assurance than agreed-upon procedures engagements but less than review engagements.**
- True
  - False
- 13. Audit risk is the risk there will be an audit failure for a given audit engagement.**
- True
  - False
- 14. Gross negligence is the existence of extreme or unusual negligence with the intent to deceive.**
- True
  - False
- 15. Many litigation experts believe that a well written engagement letter significantly reduces the likelihood of adverse legal actions.**
- True
  - False
- 16. 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

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**17. Confirmations are ordinarily used to verify account balances, but may be used to verify transactions.**

- True
- False

**18. In applying the audit risk model, auditors are concerned about overstatements, not understatements.**

- True
- False

**19. Auditing standards prohibit reliance on the work of internal auditors due to the lack of independence of the internal auditors.**

- True
- False

**20. 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

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**C. CASE STUDIES**

**Case #1: (21%)**

Match seven of the terms (a-k) with the definitions provided below (1-7):

- a. Tests of details of balances
- b. Tests of controls
- c. Substantive tests of transactions
- d. Analytical procedures
- e. Transaction-related audit objectives
- f. Management assertions
- g. Balance-related audit objectives
- h. Fraud
- i. Illegal act
- j. Error
- k. Management fraud

\_\_\_\_\_ 1. An intentional misstatement of the financial statements.

\_\_\_\_\_ 2. A set of six audit objectives the auditor must meet, including timing, posting and summarization, and accuracy.

\_\_\_\_\_ 3. Implied or expressed representations made by the client about classes of transactions, account balances and disclosures in the financial statements.

\_\_\_\_\_ 4. Audit procedures testing for monetary misstatements to determine whether the balance-related audit objectives have been satisfied for each significant account balance.

\_\_\_\_\_ 5. A set of nine audit objectives the auditor must meet, including completeness, detail tie-in, and rights and obligations.

\_\_\_\_\_ 6. Audit procedures designed to test the effectiveness of control policies and procedures.

\_\_\_\_\_ 7. Use of comparisons and relationships to assess whether account balances or other data appears reasonable.

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**Case # 2 (19%)**

In November 2023, 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, 2023 took place. The company's financial accountant has prepared financial statements for the year ended 31 December 2023 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 a matter;
- (ii) qualified opinion;
- (iii) disclaimer of opinion;
- (iv) adverse opinion.

**Good Luck**