

Auditing

Multiple Choice Questions (55 minutes)

1. The higher the risk of material misstatement, the auditor may accept ... detection risk and consequently needs more of ... audit evidence.
 - a. higher - conclusive
 - b. higher - persuasive
 - c. lower - conclusive
 - d. lower - persuasive

2. Quality control review of audit work should include objective evaluation of material judgments made by audit team and ...
 - a. direction, supervision and performance of the audit work.
 - b. audit findings to prepare audit report.
 - c. audit team's compliance with the code of ethics.
 - d. audit team's competencies for audit work.

3. When obtaining an understanding of the client's ... , the auditor should also obtain an understanding of the client's response to information technology risks.
 - a. control activities.
 - b. monitoring controls.
 - c. control environment.
 - d. risk assessment process.

4. In which of the following, substantive tests would not provide sufficient appropriate audit evidence?

	Electronic recording of transaction group	Electronic processing or reporting trading transactions
a.	Yes	No
b.	No	No
c.	Yes	Yes
d.	No	Yes

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5. If management representation is approved by the board of directors, it would be appropriate to be signed by ... otherwise, it should be signed by...
- a. Managing Director - majority of the board members.
 - b. representatives of the board of directors- all of the board members.
 - c. majority of the board members - all of the board members.
 - d. representatives of the board of directors - majority of the board members.
6. Which of the following should be included in the overall audit plan?
- I. Distinguishing engagement characteristics in order to determine the audit scope.
 - II. Consideration of preliminary audit activities results.¹
 - III. Determination of nature, timing and extent of audit procedures at assertion level.
- a. I and II.
 - b. I and III.
 - c. II and III.
 - d. I, II and III.
7. Which of the following is **not** correct?
- a. In planning an audit, auditors should determine materiality level at financial statements as a whole.
 - b. Materiality in practice refers to the amount (s) set by the auditor at less than the materiality level for financial statements as a whole.
 - c. Materiality level determined in planning the audit refers to that if uncorrected misstatements, individually or in aggregate, is less than that level, it is considered immaterial.
 - d. Determining materiality reduces the possibility of aggregate undetected and uncorrected misstatements exceeding the materiality level for financial statements as a whole to an acceptable level.

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8. Which of the following is *not* correct regarding circumstances in which the auditor is unable to communicate agreed-upon procedures to all recipients of his/her report?
- Withdrawing from the engagement.
 - Reviewing the communications with all of interested parties.
 - Communicating the audit procedures with appropriate representatives of interested parties.
 - Sending to interested parties a sample of his/her report.
9. If the auditor is to use evidence obtained in previous audit for evaluation of internal control effectiveness, he/she should obtain evidence regarding significant changes in the internal controls since previous audit to determine their usefulness. Which of the following confirms the auditor's understanding?

	<u>Inquiry</u>	<u>Observations or Inspection</u>	<u>Analytical procedures</u>
a.	Yes	Yes	Yes
b.	Yes	Yes	No
c.	No	No	Yes
d.	No	Yes	No

10. Where all entity activities are computerized and no evidence other than those produced by computer exists, which of the following should the auditor perform?
- Tests of details.
 - Tests of controls.
 - Detailed analytical procedures.
 - Dual-purpose testing (test of controls and tests of details simultaneously).
11. Inspection of post balance sheet date receipts from debtors provides evince for which of the following assertions?
- Cut off.
 - Existence and valuation.
 - Occurrence and cut off.
 - Existence, valuation and cut off.

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12. Which of the following is management assertions related to presentation and disclosure the auditor considers to evaluate any potential misstatement in the financial statements?
- a. Occurrence, completeness, accuracy, cut off and classification.
 - b. Existence, cut off, completeness, classification, valuation and allocation.
 - c. Existence, owners' equity and obligations, completeness, valuation and allocation.
 - d. Occurrence, owners' equity and obligations, completeness, classification, understandability, accuracy and valuation.
13. Which of the following statements is *not* correct?
- a. If the auditor is unable to observe (client's) stock taking due to the nature and location of stocks, the auditor should consider it as limitation in scope of the audit and make reference to it in the audit report.
 - b. observation of stock taking needs inspection of stocks, observing client procedures compliance and obtaining evidence as to reliability of client stock taking procedures.
 - c. If the auditor is unable to observe (client's) stock taking due to unforeseen conditions, the auditor should count some of the stocks or observe their count at a later date and, if necessary, test the transactions occurred in between the two dates.
 - d. when observing stock taking, the auditor counts a sample of stocks by tracing items form count sheets to stocks and tracing some of stock items to count sheets to obtain evidence as to its completeness and accuracy.
14. If the auditor concludes that confirmations from external sources are not reliable, which of the following actions the auditor should take?
- a. Rely on internal evidence.
 - b. Inform those charged with governance.
 - c. Take the matter as limitation in audit scope and refer to it in the auditor's report.
 - d. Evaluate its effect on risks of material misstatement and nature, timing and extent of other audit procedures.

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15. In an initial audit, some evidence about opening balance of... may be obtained through performing current audit procedures.
- a. non-current assets and liabilities.
 - b. current and non-current assets.
 - c. current assets and liabilities.
 - d. current and non-current liabilities.
16. when due to internal control weakness the control risk of sales order processing is high, reaching conclusion about debtors account may require:
- a. relying on tests of details of transactions and account balances and analytical procedures.
 - b. relying on tests of details of transactions and account balances or analytical procedures.
 - c. relying more on tests of details of transactions and account balances than analytical procedures.
 - d. relying more on analytical procedures than tests of details of transactions and account balances.
17. In tests of controls and substantive tests, which of the following would reduce sampling risk?
- a. Appropriate analytical procedure.
 - b. Increasing the sample size.
 - c. planning, supervision and proper review.
 - d. Increasing sample size, planning, supervision and proper review.
18. In substantive tests, which of the following would increase the sample size?
- a. Increase in the auditor's assurance level.
 - b. Increase in sampling units in the population.
 - c. Increase in the aggregate errors the auditor is willing to accept.
 - d. Increase in additional substantive tests of the same assertion in the financial statements.

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19. If the auditor believes that management does not pay adequate attention to the effects of uncertainties relating to accounting estimates that may result in significant risks, which of the following should the auditor do?
- a. Estimate a point to evaluate reasonableness of accounting estimates.
 - b. Determine a range of estimates which will include all possible results.
 - c. Estimate a point which will include all possible reasonable results.
 - d. Determine a range of estimates to evaluate reasonableness of accounting estimates.
20. In an operational audit, obtaining an understanding of controls over planned operations may help the auditor in ...
- a. understanding the activities that process the input data to output and results.
 - b. designing appropriate tests of information in accordance with audit objectives.
 - c. evaluating the risk of non-compliance with laws, regulations, grants' contracts or agreements, or any abuses of them.
 - d. evaluating the risks associated with the information gathered by the entity under audit and its unreliability.
21. If the auditor identifies events or conditions that may cause substantial doubt as to the entity's going concern, which one or more of the following should the auditor do?
- I. To gather sufficient appropriate evidence by performing appropriate procedures to confirm or remove the material or substantial doubt.
 - II. Review the management plan for future actions based on management evaluation of going concern.
 - III. Predict prospective events or conditions which may cause the entity to discontinue its activities.
- a. I and III.
 - b. II and III.
 - c. I and II.
 - d. I, II and III.

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22. which of the following statements is *not* correct regarding an audit of group financial statements?
- a. Aggregate segment materiality levels should not exceed group materiality level.
 - b. Different materiality levels may be set for different segments.
 - c. In addition to segment materiality, a threshold for misstatements should be determined.
 - d. Segment materiality level is not necessarily a percentage of the group materiality level.
23. Which of the following factors may affect group audit team participation in segment auditor's performance?
- I. Significance of the segment.
 - II. The group audit team's perception of the segment auditor.
 - III. Identified significant risk of material misstatements in the group financial statements.
- a. I and II.
 - b. II and III.
 - c. I and III.
 - d. I, II and III.
24. Which of the following statements is *not* correct?
- a. The independent auditor should evaluate any limitation imposed by management on the internal audit function
 - b. Existence of an effective audit function usually decreases the extent of independent auditor's procedures but can never substitute them completely.
 - c. In order to evaluate the internal audit function's competencies, independent auditor should ensure appropriateness of its planning, supervision, review and documentation.
 - d. Independent auditor's judgment regarding risk assessment and materiality, preliminary evaluation of internal audit function and evaluation of specific work of internal audit function determines the nature, timing and extent of audit procedures for that specific work.

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25. By which one or more of the following, the auditor may be convinced of appropriateness of pro forma financial information prepared on the management assumptions?
- I. Performing controls such as recalculation.
 - II. Obtaining evidence supporting subjective assumptions.
 - III. Internal coherence.
- a. I and II.
 - b. I and III.
 - c. II and III.
 - d. I, II and III.