

Chapter 01

Student: _____

1. Which of the following is not an element of an assurance engagement?
 - A. Three-party relationship.
 - B. Approved assurance standards.
 - C. Suitable criteria.
 - D. A written assurance report.

2. An audit establishes the conformity of assertions with specified criteria. In an audit of a financial report, the criteria by which financial report assertions are judged are:
 - A. the ethical rules of conduct.
 - B. Australian Auditing Standards.
 - C. listing rules of the Australian Securities and Investments Commission.
 - D. applicable accounting standards.

3. Who is the responsible party for the adequacy of the disclosure in the financial report and accompanying footnotes?
 - A. Auditor in charge of fieldwork.
 - B. Management of the entity.
 - C. Auditor who signs the auditor's report.
 - D. Audit clerk who assists in preparing the report and footnotes.

4. At what levels can assurance be provided under the assurance services framework?
 - A. Reasonable assurance and limited assurance.
 - B. High assurance and reasonable assurance.
 - C. Assurance can be provided on a continuum from 0% to 100%.
 - D. Assurance can be provided on a continuum from absolute to limited.

5. Independent auditors are referred to as 'independent' because:
 - A. their offices are not at the entity's place of business.
 - B. they are not employees of the entity being audited.
 - C. they are paid by parties outside of the audited entity.
 - D. they report to users outside of the audited entity.

6. The highest level of assurance is provided by:

- A. compiling financial reports.
- B. agreed-upon procedures.
- C. review.
- D. audit.

7. Which of the following is a necessary precondition for a practitioner to undertake an assurance engagement to

examine and report on an entity's internal control over financial reporting?

- A. Management presents its written assertion about the effectiveness of internal control.
- B. The practitioner anticipates relying on the entity's internal control in a financial report audit.
- C. Management agrees not to present the practitioner's report in a general-use document to shareholders.
- D. The practitioner is a continuing auditor who previously has audited the entity's financial report.

8. To which assurance engagements does the Framework for Assurance Engagements apply?

- A. Audits of historical financial information.
- B. Reviews of historical financial information.
- C. Assurance engagements other than audits or reviews of historical financial information.
- D. All of the given answers are correct.

9. The auditor's judgment concerning the overall fairness of the presentation of financial position, results of operations

and cash flows is applied within the framework of:

- A. Australian Auditing Standards that include the concept of materiality.
- B. quality control.
- C. the agreed reporting framework.
- D. the auditor's assessment of the audited entity's level of control risk.

10. To which type of assurance engagement does the umbrella standard ASAE 3000 (ISAE 3000) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' not apply?

- A. A performance audit on a government department.
- B. A review of a half-yearly financial report.
- C. A limited assurance report on the effectiveness of internal control.
- D. A limited assurance engagement on prospective financial information.

11. Which of the following can be the subject matter of the audit?

- A. The financial report of a company.
- B. The Australian accounting standards.
- C. The Australian auditing standards.
- D. The auditor's report.

12. Independent auditors perform audits on the financial reports of public companies. This type of auditing can best be described as:

- A. a discipline that assures financial information presented by management.
- B. an activity whose purpose is to search for irregularities.
- C. a regulatory function that prevents the issuance of improper financial information.
- D. a professional activity that measures and communicates financial and business data.

13. An audit of the financial report of Campbell Ltd, an Australian listed company, is being conducted by an external

auditor. The external auditor is expected to:

- A. express an opinion as to the attractiveness of Campbell for investment purposes.
- B. express an opinion as to whether the financial report is prepared in accordance with an applicable financial reporting framework.
- C. make a 100% examination of Campbell's records.
- D. certify the correctness of Campbell's financial report.

14. The essence of a financial report audit is to:

- A. examine individual transactions so that the auditor may certify as to their validity.
- B. detect fraud.
- C. assure the consistent application of correct accounting procedures.
- D. determine whether the client's financial reports are fairly stated.

15. The independent auditor adds credibility to the client's financial report by:

- A. testifying under oath about client financial information.
- B. attaching an auditor's opinion to the client's financial report.
- C. maintaining a clear-cut distinction between management's representations and the auditor's representations.
- D. stating in the auditor's communication of internal-control-related matters that the audit was made in accordance with Australian auditing standards.

16. Financial report auditing can best be described as:

- A. a regulatory function that prevents the issuance of improper financial information.
- B. a professional activity that measures and communicates financial and business data.
- C. a discipline that attests to the results of accounting and other functional operations and data.
- D. a branch of accounting.

17. Which of the following statements is not true concerning assurance services?

- A. Assurance services focus on improving the quality of information, or its context, for decision makers.
- B. The growth in assurance services has been driven in part by users' demands for more relevant and reliable information.
- C. Auditing services can be viewed as a subset of assurance services.
- D. Unlike audit engagements, an engagement to perform assurance services does not require the auditor to consider information reliability.

18. Which of the following is not an attribute of an external auditor?

- A. Client advocacy.
- B. Integrity.
- C. Competence with regards to subject matter.
- D. Objectivity.

19. Which of the following is not one of the fundamental principles of professional ethics underlying an audit?

- A. Confidentiality.
- B. Scepticism.
- C. Integrity.
- D. Objectivity.

20. Which of the following is not one of the fundamental principles of professional ethics underlying an audit?

- A. Objectivity.
- B. Integrity.
- C. Knowledge.
- D. Confidentiality.

21. Which of the following is not one of the fundamental principles underlying the objective of an audit?

- A. Knowledge.
- B. Communication.
- C. Evidence.
- D. Client satisfaction.

22. Which of the following is not one of the fundamental principles underlying the objective of an audit?

- A. Knowledge.
- B. Client satisfaction.
- C. Evidence.
- D. Documentation.

23. The primary responsibility for the adequacy of disclosures in the financial report of a publicly held company rests with the:

- A. management of the company.
- B. partner assigned to the audit engagement.
- C. Securities and Exchange Commission.
- D. auditor in charge of the fieldwork.

24. The accuracy of information included in notes that accompany the audited financial report of a company whose

shares are traded on a stock exchange is the primary responsibility of:

- A. the independent auditor.
- B. the stock exchange officials.
- C. the Securities and Exchange Commission.
- D. the company's management.

25. Which of the following is not considered to be a value added to financial information that has been audited?

- A. Comparability.
- B. Relevance.
- C. Reliability.
- D. Periodicity.

26. The value of an assurance service lies in its ability to:

- A. improve information relevance and reliability.
- B. report on the assurance process.
- C. improve the consistency of information.
- D. provide a professional service that is valued by the responsible party.

27. In the context of agency theory, information asymmetry refers to the idea that:

- A. information can vary in its reliability.
- B. information can vary in its relevance.
- C. management has more information about the entity's true financial position than do the absentee owners.
- D. management will not act in the best interests of the absentee owners.

28. The public has turned to auditors to provide assurance services primarily because:

- A. there is a need to develop new revenue streams for accounting firms.
- B. the integrity and objectivity of auditors increases the public's trust that the underlying information is not materially misstated.
- C. auditors have been proactive in identifying new types of assurance services to market to customers.
- D. audits do not provide reliable information for decision makers.

29. Which of the following best describes why an independent auditor is asked to express an opinion on the true and

fair presentation of a financial report?

- A. It is management's responsibility to seek available independent aid in the appraisal of the financial information shown in its financial report.
- B. It is difficult to prepare a financial report that fairly presents a company's financial position and changes in cash flows without the expertise of an independent auditor.
- C. It is a customary courtesy that all shareholders of a company receive an independent report on management's stewardship in managing the affairs of the business.
- D. The opinion of an independent party is needed because a company may not be objective with respect to its own financial report.

30. Which of the following would not be included in a recommendation by the assurance provider in regards to the

efficiency and effectiveness of operations?

- A. An explanation of the problem.
- B. Suggested possible improvements in performance.
- C. A statement that the assurance provider has reasonable assurance that they have identified all material matters with regards to efficiency and effectiveness that are of interest to management.
- D. Recommendation of investigating specific areas of the entity's business processes.

31. Which of the following best describes the reason why an independent auditor reports on financial statements?

- A. A management fraud may exist and it is more likely to be detected by independent auditors.
- B. Different interests may exist between the company preparing the statements and the parties using the statements.
- C. A misstatement of account balances may exist and is generally corrected as the result of the independent auditor's work.
- D. A poorly designed internal control system may be in place.

32. Below are a number of potential additional benefits arising from an assurance service:

- I. recommendations to improve the efficiency of operations.
- II. a positive influence on the behaviour of people whose activities are being assured.
- III. recommendations to improve the effectiveness of operations.

Which combination of these is identified in the book as additional benefits?

- A. I and II only.
- B. I and III only.
- C. II and III only.
- D. I, II and III.

33. When an auditor expresses an opinion on the financial report, the auditor's responsibilities extend to:

- A. an ongoing responsibility for the entity's solvency in accordance with the requirements of the *Corporations Act 2001*.
- B. the underlying wisdom of the management's decisions.
- C. active participation in the implementation of advice given.
- D. whether the entity's results are fairly presented in the financial report in accordance with approved accounting standards.

34. It is very hard for auditors to remain independent of their clients, given that they are paid by their clients. Below

are a number of possible mechanisms:

- I. ethical rules.
- II. auditing and other professional standards.
- III. audit committees.

Which of these mechanisms can help the auditor maintain their independence?

- A. I and II only.
- B. I and III only.
- C. II and III only.
- D. I, II and III.

35. What best describes the concept of risk assessment that currently underpins the auditing standards?

- A. The risk that the financial report is misstated as a result of weaknesses in internal control.
- B. The risk that the financial report is misstated because of fraud.
- C. Developing client acceptance and continuance practices that minimise the likelihood of lawsuits against the auditor.
- D. Whether management has systems in place to evaluate and effectively manage the entity's business risks.

36. Which of the following was first in the evolution of auditing approaches?

- A. Business risk approach.
- B. Transactions cycle approach.
- C. Statement of financial position approach.
- D. Financial risk approach.

37. In which area is there a gap between society's expectations of auditors and the perceived performance of auditors?

- A. Compliance with laws and regulations.
- B. The detection and reporting of earnings management and fraud.
- C. Fair presentation of the financial report.
- D. All of the given answers are correct .

38. Below are a number of potential areas where a gap between society's expectations of auditors and the perceived performance of auditors has been identified:

- I. compliance with laws and regulations.
- II. the detection and reporting of earnings management and fraud.
- III. the messages contained in the auditor's report.

Which combination of these has been identified as an expectations gap?

- A. I and II only.
- B. I and III only.
- C. II and III only.
- D. I, II and III.

39. Who establishes Australian auditing standards?

- A. Australian Auditing and Assurance Standards Board.
- B. Australian Accounting Standards Board.
- C. Australian Securities and Investments Commission.
- D. The professional bodies together (CPA Australia, The Institute of Chartered Accountants in Australia and the National Institute of Accountants).

40. Assurance services would include which of the following?

- A. Working with a client to develop a more efficient method of processing financial transactions.
- B. Preparing a report representing a client's position during a tax audit.
- C. Assisting a client in identifying potential sources of capital for acquisitions.
- D. Providing an opinion concerning the accuracy of statements made on a client's web site.

41. Under the *Corporations Act 2001*, if a company's financial report, when prepared in accordance with accounting

standards, would not otherwise give a true and fair view:

- A. the auditors are required to add such information and explanations in the financial report so as to give a true and fair view.
- B. the directors are required to add such information and explanations in the financial report so as to give a true and fair view.
- C. the directors should refer to this situation in their director's declaration.
- D. no additional information should be added to the financial report.

42.

An auditor of a company finds that there are rare and exceptional circumstances where they are unable to comply with a relevant requirement in an auditing standard. They are however able to perform appropriate alternative audit procedures. To whom do they have to report or document these circumstances?

- A. The auditor must report these circumstances to either management or the audit committee and obtain their agreement that the alternative procedures are appropriate.
- B. If the auditor can use appropriate alternative audit procedures, no reporting or documentation required.
- C. The auditor is required to document the circumstances in the auditor's report.
- D. The auditor is required to document the circumstances in the audit working papers.

43. Which of the statements is true with regards the basic principles and essential procedures contained in the auditing standards?

- A. The auditor may depart from basic principles in order to achieve a more efficient audit.
- B. There should be no departure from basic principles and essential procedures.
- C.

There should be no departure from basic principles and essential procedures should be undertaken in all except the rare circumstances where it is determined that the audit objective can be achieved more effectively with alternative procedures.

- D. There should be no departure from essential procedures and basic principles should be adhered to in all but the rare circumstances where they hinder audit efficiency.

44. What is the general character of the work conducted in performing a forensic audit?

- A. Detecting or deterring fraudulent activity.
- B. Providing assurance that the financial report is not materially misstated.
- C. Identifying the causes of an entity's financial difficulties.
- D. Offering an opinion on the reliability of the specific assertions made by management.

45. Forensic audits include all of the following except:

- A. Manufacturers' claims about product quality.
- B. Criminal investigations.
- C. Matrimonial disputes.
- D. Employee fraud.

46. Governmental auditing often extends beyond examinations leading to the expression of an opinion on the fairness

of financial presentation and includes audits of economy, efficiency and:

- A. evaluation.
- B. effectiveness.
- C. compliance.
- D. accuracy.

47. Below are different types of audits:

- I. compliance audit.
- II. financial report audit.
- III. internal audit.
- IV. performance audit.

Which combination of these types of audits can be collectively integrated and described as a comprehensive audit?

- A. I, II and III only.
- B. I, II and IV only.
- C. I, III and IV only.
- D. II, III and IV only.

Chapter 01 **Key**

1. Which of the following is not an element of an assurance engagement?

- A. Three-party relationship.
- B. Approved assurance standards.**
- C. Suitable criteria.
- D. A written assurance report.

Chapter - Chapter 01 #1

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

2. An audit establishes the conformity of assertions with specified criteria. In an audit of a financial report, the criteria

by which financial report assertions are judged are:

- A. the ethical rules of conduct.
- B. Australian Auditing Standards.
- C. listing rules of the Australian Securities and Investments Commission.
- D. applicable accounting standards.**

Chapter - Chapter 01 #2

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

3. Who is the responsible party for the adequacy of the disclosure in the financial report and accompanying footnotes?

- A. Auditor in charge of fieldwork.
- B. Management of the entity.**
- C. Auditor who signs the auditor's report.
- D. Audit clerk who assists in preparing the report and footnotes.

Chapter - Chapter 01 #3

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Learning Objective: 13.1 Understand the nature and significance of the auditor's reporting obligations.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

4. At what levels can assurance be provided under the assurance services framework?

- A.** Reasonable assurance and limited assurance.
- B. High assurance and reasonable assurance.
- C. Assurance can be provided on a continuum from 0% to 100%.
- D. Assurance can be provided on a continuum from absolute to limited.

Chapter - Chapter 01 #4

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Learning Objective: 16.1 Appreciate the framework of standards under which assurance services are currently offered, and how specific standards relate to different types of assurance services.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

5. Independent auditors are referred to as 'independent' because:

- A. their offices are not at the entity's place of business.
- B.** they are not employees of the entity being audited.
- C. they are paid by parties outside of the audited entity.
- D. they report to users outside of the audited entity.

Chapter - Chapter 01 #5

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

6. The highest level of assurance is provided by:

- A. compiling financial reports.
- B. agreed-upon procedures.
- C. review.
- D.** audit.

Chapter - Chapter 01 #6

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

7. Which of the following is a necessary precondition for a practitioner to undertake an assurance engagement to examine and report on an entity's internal control over financial reporting?
- A.** Management presents its written assertion about the effectiveness of internal control.
 - B. The practitioner anticipates relying on the entity's internal control in a financial report audit.
 - C. Management agrees not to present the practitioner's report in a general-use document to shareholders.
 - D. The practitioner is a continuing auditor who previously has audited the entity's financial report.

Chapter - Chapter 01 #7

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Learning Objective: 16.6 Understand the characteristics of engagements involving the assurance of reports on internal controls, and appreciate the assurance provider's responsibilities in such engagements.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

8. To which assurance engagements does the Framework for Assurance Engagements apply?
- A. Audits of historical financial information.
 - B. Reviews of historical financial information.
 - C. Assurance engagements other than audits or reviews of historical financial information.
 - D.** All of the given answers are correct.

Chapter - Chapter 01 #8

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Learning Objective: 16.1 Appreciate the framework of standards under which assurance services are currently offered, and how specific standards relate to different types of assurance services.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

9. The auditor's judgment concerning the overall fairness of the presentation of financial position, results of operations and cash flows is applied within the framework of:
- A. Australian Auditing Standards that include the concept of materiality.
 - B. quality control.
 - C.** the agreed reporting framework.
 - D. the auditor's assessment of the audited entity's level of control risk.

Chapter - Chapter 01 #9

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

10. To which type of assurance engagement does the umbrella standard ASAE 3000 (ISAE 3000) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' not apply?

- A. A performance audit on a government department.
- B. A review of a half-yearly financial report.**
- C. A limited assurance report on the effectiveness of internal control.
- D. A limited assurance engagement on prospective financial information.

Chapter - Chapter 01 #10

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.1 Understand the framework for assurance engagements and the structure of assurance standards and pronouncements.

Section: The framework for assurance engagements and the structure of assurance standards and pronouncements

11. Which of the following can be the subject matter of the audit?

- A. The financial report of a company.**
- B. The Australian accounting standards.
- C. The Australian auditing standards.
- D. The auditor's report.

Chapter - Chapter 01 #11

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

12. Independent auditors perform audits on the financial reports of public companies. This type of auditing can best be described as:

- A. a discipline that assures financial information presented by management.**
- B. an activity whose purpose is to search for irregularities.
- C. a regulatory function that prevents the issuance of improper financial information.
- D. a professional activity that measures and communicates financial and business data.

Chapter - Chapter 01 #12

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

13. An audit of the financial report of Campbell Ltd, an Australian listed company, is being conducted by an external auditor. The external auditor is expected to:
- A. express an opinion as to the attractiveness of Campbell for investment purposes.
 - B.** express an opinion as to whether the financial report is prepared in accordance with an applicable financial reporting framework.
 - C. make a 100% examination of Campbell's records.
 - D. certify the correctness of Campbell's financial report.

Chapter - Chapter 01 #13

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

14. The essence of a financial report audit is to:
- A. examine individual transactions so that the auditor may certify as to their validity.
 - B. detect fraud.
 - C. assure the consistent application of correct accounting procedures.
 - D.** determine whether the client's financial reports are fairly stated.

Chapter - Chapter 01 #14

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

15. The independent auditor adds credibility to the client's financial report by:
- A. testifying under oath about client financial information.
 - B.** attaching an auditor's opinion to the client's financial report.
 - C. maintaining a clear-cut distinction between management's representations and the auditor's representations.
 - D. stating in the auditor's communication of internal-control-related matters that the audit was made in accordance with Australian auditing standards.

Chapter - Chapter 01 #15

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Learning Objective: 13.1 Understand the nature and significance of the auditor's reporting obligations.

Section: Auditing—definition and fundamental principles

16. Financial report auditing can best be described as:

- A. a regulatory function that prevents the issuance of improper financial information.
- B. a professional activity that measures and communicates financial and business data.
- C.** a discipline that attests to the results of accounting and other functional operations and data.
- D. a branch of accounting.

Chapter - Chapter 01 #16

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Learning Objective: 13.1 Understand the nature and significance of the auditor's reporting obligations.

Section: Auditing—definition and fundamental principles

17. Which of the following statements is not true concerning assurance services?

- A. Assurance services focus on improving the quality of information, or its context, for decision makers.
- B. The growth in assurance services has been driven in part by users' demands for more relevant and reliable information.
- C. Auditing services can be viewed as a subset of assurance services.
- D.** Unlike audit engagements, an engagement to perform assurance services does not require the auditor to consider information reliability.

Chapter - Chapter 01 #17

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

18. Which of the following is not an attribute of an external auditor?

- A.** Client advocacy.
- B. Integrity.
- C. Competence with regards to subject matter.
- D. Objectivity.

Chapter - Chapter 01 #18

Difficulty: Medium

Est Time: < 1 min

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

19. Which of the following is not one of the fundamental principles of professional ethics underlying an audit?

- A. Confidentiality.
- B. Scepticism.**
- C. Integrity.
- D. Objectivity.

Chapter - Chapter 01 #19

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

20. Which of the following is not one of the fundamental principles of professional ethics underlying an audit?

- A. Objectivity.
- B. Integrity.
- C. Knowledge.**
- D. Confidentiality.

Chapter - Chapter 01 #20

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

21. Which of the following is not one of the fundamental principles underlying the objective of an audit?

- A. Knowledge.
- B. Communication.
- C. Evidence.
- D. Client satisfaction.**

Chapter - Chapter 01 #21

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

22. Which of the following is not one of the fundamental principles underlying the objective of an audit?

- A. Knowledge.
- B. Client satisfaction.**
- C. Evidence.
- D. Documentation.

Chapter - Chapter 01 #22

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.2 Define auditing and appreciate the fundamental principles underlying an audit.

Section: Auditing—definition and fundamental principles

23. The primary responsibility for the adequacy of disclosures in the financial report of a publicly held company rests with the:

- A.** management of the company.
- B. partner assigned to the audit engagement.
- C. Securities and Exchange Commission.
- D. auditor in charge of the fieldwork.

Chapter - Chapter 01 #23

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.3 Appreciate the attributes of accounting information.

Section: Attributes of accounting information

24. The accuracy of information included in notes that accompany the audited financial report of a company whose shares are traded on a stock exchange is the primary responsibility of:

- A. the independent auditor.
- B. the stock exchange officials.
- C. the Securities and Exchange Commission.
- D.** the company's management.

Chapter - Chapter 01 #24

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.3 Appreciate the attributes of accounting information.

Section: Attributes of accounting information

25. Which of the following is not considered to be a value added to financial information that has been audited?

- A. Comparability.
- B. Relevance.
- C. Reliability.
- D.** Periodicity.

Chapter - Chapter 01 #25

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.3 Appreciate the attributes of accounting information.

Section: Attributes of accounting information

26. The value of an assurance service lies in its ability to:
- A.** improve information relevance and reliability.
 - B. report on the assurance process.
 - C. improve the consistency of information.
 - D. provide a professional service that is valued by the responsible party.

Chapter - Chapter 01 #26

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

27. In the context of agency theory, information asymmetry refers to the idea that:
- A. information can vary in its reliability.
 - B. information can vary in its relevance.
 - C.** management has more information about the entity's true financial position than do the absentee owners.
 - D. management will not act in the best interests of the absentee owners.

Chapter - Chapter 01 #27

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

28. The public has turned to auditors to provide assurance services primarily because:
- A. there is a need to develop new revenue streams for accounting firms.
 - B.** the integrity and objectivity of auditors increases the public's trust that the underlying information is not materially misstated.
 - C. auditors have been proactive in identifying new types of assurance services to market to customers.
 - D. audits do not provide reliable information for decision makers.

Chapter - Chapter 01 #28

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

29. Which of the following best describes why an independent auditor is asked to express an opinion on the true and fair presentation of a financial report?
- A. It is management's responsibility to seek available independent aid in the appraisal of the financial information shown in its financial report.
 - B. It is difficult to prepare a financial report that fairly presents a company's financial position and changes in cash flows without the expertise of an independent auditor.
 - C. It is a customary courtesy that all shareholders of a company receive an independent report on management's stewardship in managing the affairs of the business.
 - D. The opinion of an independent party is needed because a company may not be objective with respect to its own financial report.**

Chapter - Chapter 01 #29

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

30. Which of the following would not be included in a recommendation by the assurance provider in regards to the efficiency and effectiveness of operations?
- A. An explanation of the problem.
 - B. Suggested possible improvements in performance.
 - C. A statement that the assurance provider has reasonable assurance that they have identified all material matters with regards to efficiency and effectiveness that are of interest to management.**
 - D. Recommendation of investigating specific areas of the entity's business processes.

Chapter - Chapter 01 #30

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

31. Which of the following best describes the reason why an independent auditor reports on financial statements?
- A. A management fraud may exist and it is more likely to be detected by independent auditors.
 - B. Different interests may exist between the company preparing the statements and the parties using the statements.**
 - C. A misstatement of account balances may exist and is generally corrected as the result of the independent auditor's work.
 - D. A poorly designed internal control system may be in place.

Chapter - Chapter 01 #31

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

32. Below are a number of potential additional benefits arising from an assurance service:

- I. recommendations to improve the efficiency of operations.
- II. a positive influence on the behaviour of people whose activities are being assured.
- III. recommendations to improve the effectiveness of operations.

Which combination of these is identified in the book as additional benefits?

- A. I and II only.
- B. I and III only.
- C. II and III only.
- D. I, II and III.**

Chapter - Chapter 01 #32

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

33. When an auditor expresses an opinion on the financial report, the auditor's responsibilities extend to:

- A. an ongoing responsibility for the entity's solvency in accordance with the requirements of the *Corporations Act 2001*.
- B. the underlying wisdom of the management's decisions.
- C. active participation in the implementation of advice given.
- D. whether the entity's results are fairly presented in the financial report in accordance with approved accounting standards.**

Chapter - Chapter 01 #33

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

34. It is very hard for auditors to remain independent of their clients, given that they are paid by their clients. Below

are a number of possible mechanisms:

- I. ethical rules.
- II. auditing and other professional standards.
- III. audit committees.

Which of these mechanisms can help the auditor maintain their independence?

- A. I and II only.
- B. I and III only.
- C. II and III only.
- D. I, II and III.**

Chapter - Chapter 01 #34

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.4 Understand the reasons giving rise to demand for assurance and appreciate the relationships between the auditor, the client and the public.

Section: Demand for assurance and the auditor–client–public relationship

35. What best describes the concept of risk assessment that currently underpins the auditing standards?
- A. The risk that the financial report is misstated as a result of weaknesses in internal control.
 - B. The risk that the financial report is misstated because of fraud.
 - C. Developing client acceptance and continuance practices that minimise the likelihood of lawsuits against the auditor.
 - D.** Whether management has systems in place to evaluate and effectively manage the entity's business risks.

Chapter - Chapter 01 #35

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.5 Appreciate the evolution of the audit function.

Section: The evolution of the audit function

36. Which of the following was first in the evolution of auditing approaches?
- A. Business risk approach.
 - B. Transactions cycle approach.
 - C.** Statement of financial position approach.
 - D. Financial risk approach.

Chapter - Chapter 01 #36

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.5 Appreciate the evolution of the audit function.

Section: The evolution of the audit function

37. In which area is there a gap between society's expectations of auditors and the perceived performance of auditors?
- A. Compliance with laws and regulations.
 - B.** The detection and reporting of earnings management and fraud.
 - C. Fair presentation of the financial report.
 - D. All of the given answers are correct .

Chapter - Chapter 01 #37

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.6 Explain the concept of the expectation gap, especially in the areas of auditor's report messages, corporate failures, fraud and communicating different levels of assurance.

Section: The expectation gap

38. Below are a number of potential areas where a gap between society's expectations of auditors and the perceived performance of auditors has been identified:

- I. compliance with laws and regulations.
- II. the detection and reporting of earnings management and fraud.
- III. the messages contained in the auditor's report.

Which combination of these has been identified as an expectations gap?

- A. I and II only.
- B. I and III only.
- C. II and III only.**
- D. I, II and III.

Chapter - Chapter 01 #38

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.6 Explain the concept of the expectation gap, especially in the areas of auditor's report messages, corporate failures, fraud and communicating different levels of assurance.

Section: The expectation gap

39. Who establishes Australian auditing standards?

- A. Australian Auditing and Assurance Standards Board.**
- B. Australian Accounting Standards Board.
- C. Australian Securities and Investments Commission.
- D. The professional bodies together (CPA Australia, The Institute of Chartered Accountants in Australia and the National Institute of Accountants).

Chapter - Chapter 01 #39

Difficulty: Easy

Est Time: < 1 min

Learning Objective: 1.7 Appreciate the role of auditing standards and audit requirements contained in the Corporations Act 2001.

Section: The role of auditing standards and audit requirements contained in the Corporations Act 2001

40. Assurance services would include which of the following?

- A. Working with a client to develop a more efficient method of processing financial transactions.
- B. Preparing a report representing a client's position during a tax audit.
- C. Assisting a client in identifying potential sources of capital for acquisitions.
- D. Providing an opinion concerning the accuracy of statements made on a client's web site.**

Chapter - Chapter 01 #40

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.7 Appreciate the role of auditing standards and audit requirements contained in the Corporations Act 2001.

Section: The role of auditing standards and audit requirements contained in the Corporations Act 2001

41. Under the *Corporations Act 2001*, if a company's financial report, when prepared in accordance with accounting standards, would not otherwise give a true and fair view:
- A. the auditors are required to add such information and explanations in the financial report so as to give a true and fair view.
 - B. the directors are required to add such information and explanations in the financial report so as to give a true and fair view.**
 - C. the directors should refer to this situation in their director's declaration.
 - D. no additional information should be added to the financial report.

Chapter - Chapter 01 #41

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.7 Appreciate the role of auditing standards and audit requirements contained in the *Corporations Act 2001*.

Section: The role of auditing standards and audit requirements contained in the *Corporations Act 2001*

42.

An auditor of a company finds that there are rare and exceptional circumstances where they are unable to comply with a relevant requirement in an auditing standard. They are however able to perform appropriate alternative audit procedures. To whom do they have to report or document these circumstances?

- A. The auditor must report these circumstances to either management or the audit committee and obtain their agreement that the alternative procedures are appropriate.
- B. If the auditor can use appropriate alternative audit procedures, no reporting or documentation required.
- C. The auditor is required to document the circumstances in the auditor's report.
- D. The auditor is required to document the circumstances in the audit working papers.**

Chapter - Chapter 01 #42

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.7 Appreciate the role of auditing standards and audit requirements contained in the *Corporations Act 2001*.

Section: The role of auditing standards and audit requirements contained in the *Corporations Act 2001*

43. Which of the statements is true with regards the basic principles and essential procedures contained in the auditing standards?

- A. The auditor may depart from basic principles in order to achieve a more efficient audit.
- B. There should be no departure from basic principles and essential procedures.
- C.**

There should be no departure from basic principles and essential procedures should be undertaken in all except the rare circumstances where it is determined that the audit objective can be achieved more effectively with alternative procedures.

- D. There should be no departure from essential procedures and basic principles should be adhered to in all but the rare circumstances where they hinder audit efficiency.

Chapter - Chapter 01 #43

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.7 Appreciate the role of auditing standards and audit requirements contained in the *Corporations Act 2001*.

Section: The role of auditing standards and audit requirements contained in the *Corporations Act 2001*

44. What is the general character of the work conducted in performing a forensic audit?

- A.** Detecting or deterring fraudulent activity.
- B. Providing assurance that the financial report is not materially misstated.
- C. Identifying the causes of an entity's financial difficulties.
- D. Offering an opinion on the reliability of the specific assertions made by management.

Chapter - Chapter 01 #44

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.8 Obtain an overview of other applications of the assurance function, including compliance auditing, performance auditing, comprehensive auditing, internal auditing and forensic auditing, as well as of providing assurance on subject matter other than historical financial information.

Section: Other applications of the assurance function

45. Forensic audits include all of the following except:

- A.** Manufacturers' claims about product quality.
- B. Criminal investigations.
- C. Matrimonial disputes.
- D. Employee fraud.

Chapter - Chapter 01 #45

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.8 Obtain an overview of other applications of the assurance function, including compliance auditing, performance auditing, comprehensive auditing, internal auditing and forensic auditing, as well as of providing assurance on subject matter other than historical financial information.

Section: Other applications of the assurance function

46. Governmental auditing often extends beyond examinations leading to the expression of an opinion on the fairness

of financial presentation and includes audits of economy, efficiency and:

- A. evaluation.
- B.** effectiveness.
- C. compliance.
- D. accuracy.

Chapter - Chapter 01 #46

Difficulty: Easy

Est Time: 1–3 mins

Learning Objective: 1.8 Obtain an overview of other applications of the assurance function, including compliance auditing, performance auditing, comprehensive auditing, internal auditing and forensic auditing, as well as of providing assurance on subject matter other than historical financial information.

Section: Other applications of the assurance function

47. Below are different types of audits:

- I. compliance audit.
- II. financial report audit.
- III. internal audit.
- IV. performance audit.

Which combination of these types of audits can be collectively integrated and described as a comprehensive audit?

- A. I, II and III only.
- B. I, II and IV only.**
- C. I, III and IV only.
- D. II, III and IV only.

Chapter - Chapter 01 #47

Difficulty: Medium

Est Time: 1–3 mins

Learning Objective: 1.8 Obtain an overview of other applications of the assurance function, including compliance auditing, performance auditing, comprehensive auditing, internal auditing and forensic auditing, as well as of providing assurance on subject matter other than historical financial information.

Section: Other applications of the assurance function

Chapter 01 Summary

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