

1. Which of the following statements best explains why the auditing profession has found it essential to promulgate ethical standards and to establish means for ensuring their observance?
  - A. Ethical standards that emphasise excellence in performance over material rewards establish a reputation for competence and character.
  - B. Vigorous enforcement of an established code of ethics is the best way to prevent unscrupulous acts.
  - C. A distinguishing mark of a profession is its acceptance of responsibility to the public.
  - D. A requirement for a profession is to establish ethical standards that stress primarily a responsibility to clients and colleagues.
2. Which of the following bodies is able to impose penalties on auditors who have failed to carry out their duties properly?
  - A. Financial Reporting Council.
  - B. Companies Auditors and Liquidators Disciplinary Board.
  - C. Auditing and Assurance Standards Board.
  - D. All of the options listed here are correct.
3. Which of the following bodies monitors the operation of the Auditing and Assurance Standards Board?
  - A. Financial Reporting Council.
  - B. Companies Auditors and Liquidators Disciplinary Board.
  - C. Australian Securities Exchange.
  - D. All of the given answers are correct.
4. The Australian auditing standards issued by the Australian Auditing and Assurance Standards Board (AUASB) are intended to be applied to:
  - A. all audit, review, assurance and related engagements conducted by external firms.
  - B. all audits of entities listed on the Australian Securities Exchange.
  - C. all audits of companies incorporated under the *Corporations Act 2001*.
  - D. all audit, review, assurance and related engagements where the entity has more than five shareholders.
5. Which of the following bodies monitors the operation of the Australian Accounting Standards Board?
  - A. Australian Securities Exchange.
  - B. Financial Reporting Council.
  - C. Australian Securities and Investments Commission.
  - D. Auditing and Assurance Standards Board.
6. Which of the following statements is correct?
  - A. ASIC is a member of the International Forum of Independent Audit Regulators.
  - B. International auditing standards are mandatory for all auditors.
  - C. The FRC is a member of IFAC.
  - D. Membership of the International Auditing and Assurance Standards Board is restricted to members of the Forum of Firms.

7. Which of the following types of companies can only be used by an audit firm with the consent of the National Council of the Institute of Chartered Accountants in Australia?
- Nominee company.
  - Service company.
  - Practice company.
  - All of the given answers are correct.
8. Which of the following are elements of an audit firm's quality control that should be considered in establishing its quality control policies and procedures?
- |        | Personnel management | Monitoring | Engagement performance |
|--------|----------------------|------------|------------------------|
| A. Yes | Yes                  | No         |                        |
| B. Yes | Yes                  | Yes        |                        |
| C. Yes | No                   | Yes        |                        |
| D. No  | Yes                  | Yes        |                        |
9. The objective of quality control dictates that a public accounting firm should establish policies and procedures for professional development which provide reasonable assurance that all entry-level personnel:
- prepare working papers that are standardised in form and content.
  - have the knowledge required to enable them to fulfil responsibilities assigned.
  - advance within the organisation.
  - develop specialties in specific areas of public accounting.
10. A firm of independent auditors must establish and follow explicit quality control policies and procedures because these standards:
- are necessary to meet increasing requirements of auditors' liability insurers.
  - give reasonable assurance that the firm as a whole will conform to the auditing standards.
  - include formal filing of records of such policies and procedures.
  - are required by ASIC for auditors of all entities.
11. In pursuing its quality control objectives with respect to acceptance of a client, an audit firm is not likely to:
- make inquiries of the proposed client's legal adviser.
  - review financial reports of the proposed client.
  - make inquiries of previous auditors.
  - review the personnel practices of the proposed client.
12. The mandatory continuing professional education (CPE) requirement for members of The Institute of Chartered Accountants in Australia is:
- 120 CPE hours every year.
  - 120 CPE hours every three years.
  - 60 CPE hours every three years.
  - 60 CPE hours every year.
13. With respect to the quality control element concerning hiring, which policy will provide reasonable assurance that those employed possess the appropriate characteristics to enable them to work competently?
- Establish qualifications and guidelines for evaluating potential hirees at each professional level.
  - Establish guidelines and requirements for the firm's professional development program and communicate them to personnel.
  - Establish qualifications deemed necessary for the various levels of responsibility.
  - Assign responsibility for making advancement decisions.

14. An auditor who is approached by the ICAA, CPA Australia or IPA to undergo a quality control audit must:
- A. provide audit files to the investigators without delay.
  - B. obtain the client's permission to disclose information to the investigators prior to giving them any information.
  - C. co-operate in every way without delay.
  - D. disclose to the investigators any potential quality control problems that the member is aware of.
15. The primary purpose of establishing quality control policies and procedures for deciding whether to accept a new client is to:
- A. enable the audit firm to attest to the reliability of the client.
  - B. satisfy the audit firm's duty to the public concerning the acceptance of new clients.
  - C. minimise the likelihood of association with clients whose management lacks integrity.
  - D. anticipate before performing any fieldwork whether an unmodified opinion can be expressed.
16. In pursuing the audit firm's quality control objectives, the firm may maintain records indicating which partners or employees of the firm were previously employed by the firm's clients. Which quality control objective would this be most likely to satisfy?
- A. Professional relationship.
  - B. Supervision.
  - C. Independence.
  - D. Advancement.
17. A basic objective of an audit firm is to provide professional services to conform with professional standards.  
Reasonable assurance of achieving this basic objective is provided through:
- A. continuing professional education.
  - B. a system of quality control.
  - C. compliance with ASX listing requirements.
  - D. a system of peer review.
18. Which of the following statements concerning auditing in the public sector is correct?
- A. The Auditor-General only conducts financial report audits in the public sector.
  - B. Private sector auditors may conduct audits in the public sector as a delegate of the Auditor-General.
  - C. The Auditor-General is appointed by the government.
  - D. None of the options listed here are correct.

## ch02 Key

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

## ch02 Summary

| <u>Category</u>                                                                                                                                                                               | <u># of Questions</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Chapter - Chapter 02                                                                                                                                                                          | 18                    |
| Difficulty: Easy                                                                                                                                                                              | 14                    |
| Difficulty: Medium                                                                                                                                                                            | 4                     |
| Est Time: < 1 min                                                                                                                                                                             | 4                     |
| Est Time: 1–3 mins                                                                                                                                                                            | 14                    |
| Learning Objective: 2.1 Identify the attributes of professional status and describe to what extent they exist in public accounting.                                                           | 1                     |
| Learning Objective: 2.2 Describe the regulation of auditing and its subject matter.                                                                                                           | 4                     |
| Learning Objective: 2.3 Explain the impacts of internationalisation on auditing.                                                                                                              | 1                     |
| Learning Objective: 2.4 Outline the characteristics of the professional bodies and accounting firms engaged in the auditing profession, and describe the internal structure of an audit firm. | 1                     |
| Learning Objective: 2.5 Identify the elements of quality control within audit firms, and explain practice monitoring programs.                                                                | 10                    |
| Learning Objective: 2.6 Explain how auditing in the public sector fits into the Australian auditing and assurance environment.                                                                | 1                     |
| Section: Auditing in the public sector                                                                                                                                                        | 1                     |
| Section: Internationalisation of auditing                                                                                                                                                     | 1                     |
| Section: Professional status of the auditor                                                                                                                                                   | 1                     |
| Section: Profile of the auditing profession and of audit firms                                                                                                                                | 1                     |
| Section: Quality control                                                                                                                                                                      | 10                    |
| Section: Regulation of auditing and of the subject matter of audits                                                                                                                           | 4                     |