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| **Module MCQ Questions:** | **Answer** | **Explanation** |
| Which of the following statements **best** describes the term ‘assurance services’?   * 1. The assembly of financial statements based on assumptions of a responsible party.   2. Services designed for the improvement of operations, resulting in better outcomes.   3. Services designed to express an opinion on historical financial statements based on the results of an audit.   4. Independent professional services that improve the credibility of information, or its context, for decision makers. | D | D is correct. It is the best description of assurance services because it makes reference to the independence of the assurance practitioner and the objective of improving the quality of the information that is the subject matter of the assurance service. It also makes reference to the users: the decision makers who intend to rely on the information.  A and B are incorrect because they are not assurance services — they are classified as related services: A is a compilation of financial information, and B is a consulting engagement.  C is incorrect because the statement refers to the objective of a financial statement audit. It does not describe assurance services, and a financial statement audit is only a subset or type of assurance service. |
| What type of threat to professional independence identified in the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* is created when the auditor is given a discount on wine purchases by a client that operates a winery?   * 1. Financial threat.   2. Self-review threat.   3. Self-interest threat.   4. Intimidation threat. | C | C is correct. The price discount is a personal financial advantage to members of the audit team. This results in a self-interest threat.  The question clearly implies a self-interest threat.  A is incorrect because a financial threat is not a category of threat that is identified in the International Code of Ethics for Professional Accountants.  B is incorrect because a self-review threat is not relevant in this case. D is incorrect because an intimidation threat is not relevant in this case. There is no element of self-review or intimidation indicated in the question. |
| For a financial audit of a government department carried out by an auditor-general’s office, which of the following would not be an output of the audit?   * 1. An audit opinion on the financial statements.   2. A report to parliament on significant issues arising out of the audit.   3. An opinion on whether taxpayers’ money is spent efficiently, effectively and economically.   4. A letter to the governing body of the auditee that includes observations about the quality of internal controls. | C | C is correct because an opinion on economy, efficiency and/or effectiveness is the result of a performance audit. Performance audits may be performed along with a financial audit but are not part of a financial audit.  A is incorrect because as for any financial statement audit, the auditor would be expected to express an opinion on the financial statements.  B is incorrect because this does not differ from any financial statement audit where it would be expected that the auditor would provide a report and the report would be submitted to the governing body (parliament in this case).  D is incorrect because as for any financial statement audit, significant matters regarding internal controls would be communicated to those charged with governance. |
| The International Framework for Assurance Engagements indicates that, in practice, a professional accountant should be able to provide which of the following levels of assurance on various engagements?   * 1. Absolute   2. High or low   3. Appropriate   4. Reasonable or limited | D | D is correct because the International Framework for Assurance Engagements, para. 11, refers to a reasonable assurance engagement and a limited assurance engagement.  Examples include audits (reasonable) and reviews (limited).  A, B and C are incorrect because the concepts of absolute, high or low, or appropriate levels of assurance are not discussed in the framework. |
| According to ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, reasonable assurance is obtained when the auditor has reduced audit risk to   * 1. A reasonable level.   2. An acceptable level.   3. A reasonably low level.   4. An acceptably low level. | D | D is correct. Refer to ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, para. 17: To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. [emphasis added]  A, B and C are incorrect as they are not the language used in ISA 200. |
| Which of the following statements is correct?   * 1. Audit risk is the risk of a material misstatement in the financial statements.   2. The risk of a material misstatement in the financial statements consists of control risk.   3. Audit risk is the risk that the auditor will not detect a material misstatement that exists in the financial statements.   4. Audit risk is the risk of a material misstatement in the financial statements and that the auditor will not detect the material misstatement. | D | D is correct. D combines A and C. Refer to ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, para. A34, ‘Audit risk is a function of the risks of material misstatement and detection risk.’  A is incorrect because it does not refer to detection risk — it refers to the risk of a material misstatement which combines both inherent and control risks.  B is incorrect because control risk refers to the risk that the control system will fail to prevent or to detect and correct an error. The risk of material misstatement includes both inherent and control risks.  C is incorrect because it does not refer to the risk of a material misstatement in the financial statements — it defines detection risk. |
| Your client has a December year-end, with December and January being very busy months. The client has decided to make a public offering next year. In the audit of sales revenue, the auditor would be most concerned with which of the following assertions?   * 1. Cutoff   2. Accuracy   3. Classification   4. Completeness | A | A is correct because the concern should be that sales are moved from January back to December. This is a cutoff issue. The auditor should also be concerned about the occurrence of sales, but this is not an option here.  B, C and D are incorrect because the risk relating to the other assertions regarding sales is not affected by the issue identified. |
| In the audit of trade payables, the auditor is normally most concerned with   * 1. Existence.   2. Completeness.   3. Rights and obligations.   4. Accuracy, valuation and allocation. | B | B is correct because understatement is the main issue for liabilities and therefore the completeness assertion is critical.  A is incorrect because it is unusual to find that liabilities are overstated.  C is incorrect because liabilities that are disclosed normally represent existing obligations. This is a low risk assertion.  D is incorrect because accuracy, valuation and allocation is also a secondary consideration. |
| Your client is in a highly competitive industry with the majority of the competition coming from overseas. Its products have a relatively short life cycle and product development is continuous in order to keep up with competitors. For the inventory account, the assertion upon which most audit effort should be concentrated is   * 1. Existence.   2. Completeness.   3. Rights and obligations.   4. Accuracy, valuation and allocation. | D | D is correct because given the competitive industry and short life cycle, accuracy, valuation and allocation is the key assertion for inventory. There is a risk that much of the inventory might be obsolete, so overvalued. Existence and rights are not insignificant risks and must be tested, but due to the nature of the business, these risks are of less importance than valuation.  A is incorrect because there is lower risk that non-existent inventory has been fraudulently recorded.  B is incorrect because there is lower risk of inventory understatement.  C is incorrect because there is a lower risk that inventory belongs to others. |
| Your client is a manufacturer of outdoor furniture. Theft of inventory has been an ongoing problem.The key audit risk to be addressed at year end in relation to inventory is   * 1. Existence.   2. Completeness.   3. Rights and obligations.   4. Accuracy, valuation and allocation. | A | A is correct because given the thefts of inventory, existence is the key assertion at risk.  B is incorrect because completeness is not normally an issue with assets — the main risk with assets is overvaluation.  C and D are incorrect. While both accuracy, valuation and allocation (D), and rights and obligations (C) are important, they are of lower risk than existence. |
| Which of the following evidence-gathering procedures is likely to be the most effective in testing the completeness of trade debtors?   * 1. Selecting a sample of subsequent cash receipts and verifying that related sales were cut off properly   2. Selecting a sample of customers and verifying that the year-end balance does not exceed the customer’s credit limit   3. Recalculating the client’s ageing of trade debtors and tracing a sample of the outstanding invoices to the ageing   4. Selecting a sample of shipping documents around the year end and ensuring that all shipments prior to the year-end were invoiced and recorded in the trade debtors sub-ledger | D | D is correct because this procedure is a test that all sales as evidenced by shipments have been recorded and so it is a completeness test.  A is incorrect because this test is related to the cutoff assertion for sales, and will therefore only test for misallocated sales around year end.  B is incorrect because this is primarily a test of the accuracy, valuation and allocation assertion; it determines the collectability of the account.  C is incorrect because this is part of the testing for the accuracy, valuation and allocation assertion for the account. The second part of this test is to estimate the allowance for doubtful debts, determined on the basis of the ageing. |
| Which of the following is not a general computer control?   * 1. The use of systems software logs to monitor attempts to access the operating system   2. The procedures for documenting, reviewing, testing and approving systems or programs and changes   3. The organisational structure and operation of the IT activity including controls over access to the equipment and data files   4. Procedures to assure only authorised personnel receive the output from the weekly update of the trade debtors master file | D | D is correct because controls over the output of accounting applications are considered application controls since they relate to a specific accounting application.  A, B and C are incorrect because they are classified as general controls as they relate to all applications. |
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| Which of the following is not a general computer control?  A. The use of systems software logs to monitor attempts to access the operating system  B. The procedures for documenting, reviewing, testing and approving systems or programs and changes  C. The organisational structure and operation of the IT activity including controls over access to the equipment and data files  D. Procedures to assure only authorised personnel receive the output from the weekly update of the trade debtors master file | D | D is correct because controls over the output of accounting applications are considered application controls since they relate to a specific accounting application.  A, B and C are incorrect because they are classified as general controls as they relate to all  applications. |
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| Which of the following are self-interest threats to objectivity?   1. Receiving gifts from clients 2. Competing directly with the client 3. Personal friendship with the CEO and CFO of the client 4. Auditing a client when your firm redesigned the internal control system in the previous year   A. I and II  B. I and IV  C. II and III  D. III and IV | A | The correct answer is A because they can impact on objectivity as explained in the Study guide.  Both clearly may result in economic benefits for the auditor, which are the primary source of self-  interest threats.  Item III is incorrect because it is a familiarity threat, not a self-interest threat. Friendship might  bias the auditor’s professional judgement.  Item IV is incorrect because it is a self-review threat rather than a self-interest threat. |
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| Which of the following statements are correct?   1. Some ISAs may not be relevant to small entities. 2. ISAs do not apply to companies limited by guarantee. 3. Specific audit procedures to comply with ISAs may vary depending on the size of the entity. 4. In some instances, the Australian auditing standards permit auditors to ignore the requirements of the ISAs.   A. I and III  B. I and IV  C. II and IV  D. III and IV | A | A is the correct answer. Item A is correct because while an auditor must comply with all relevant ISAs, an ISA may not be relevant, for example, ISA 610 (Revised) if the SME has no internal audit function.  Item C is correct because specific audit procedures may vary considerably depending on the size and complexity of an entity.  Item B is incorrect. While some companies limited by guarantee do not need an audit, if they  have an audit it must comply with ISAs. While the ISAs do apply to these audits, some  requirements may be irrelevant to small companies. The audit plan provides the link between the requirements of the ISAs and the nature of the company.v  Item D is incorrect because the Australian standards impose some additional requirements not found in the ISAs, but in no case do they reduce the requirements of the ISAs. |
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| Which of the following increase control risk?   1. Lack of segregation of duties. 2. Optimistic forecasts presented to analysts. 3. Reduction in sample size for substantive tests 4. Reduction in the size of the internal audit group   A. I and II  B. I and IV  C. II and III  D. III and IV | B | B is the correct answer because item I and IV are important controls, so a reduction will impact  control risk.  Item II is incorrect because it refers to an increase in inherent risk.  Item III is incorrect because it refers to an increase in detection risk.  Refer to ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, para. A40, for a discussion of inherent risk, and para. A41 for control risk. |
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| Which of the following is not a general computer control?  A. The use of systems software logs to monitor attempts to access the operating system  B. The procedures for documenting, reviewing, testing and approving systems or programs and changes  C. The organisational structure and operation of the IT activity including controls over access to the equipment and data files  D. Procedures to assure only authorised personnel receive the output from the weekly update of the trade debtors master file | D | D is correct because controls over the output of accounting applications are considered  application controls since they relate to a specific accounting application.  A, B and C are incorrect because they are classified as general controls as they relate to all  applications. |
| Which of the following are self-interest threats to objectivity?   1. Receiving gifts from clients 2. Competing directly with the client 3. Personal friendship with the CEO and CFO of the client 4. Auditing a client when your firm redesigned the internal control system in the previous year   A. I and II  B. I and IV  C. ll and III  D. III and IV | A | The correct answer is A because they can impact on objectivity as explained in the Study guide. Both clearly may result in economic benefits for the auditor, which are the primary source of self-interest threats.  Item III is incorrect because it is a familiarity threat, not a self-interest threat. Friendship might bias the auditor’s professional judgement.  Item IV is incorrect because it is a self-review threat rather than a self-interest threat. |
| Which of the following statements are correct?   1. Some ISAs may not be relevant to small entities 2. ISA do ISAs do not apply to companies limited by guarantee 3. Specific audit procedures to comply with ISAs may vary depending on the size of the entity. 4. In some instances, the Australian auditing standards permit auditors to ignore the requirements of the ISAS   A. I and III  B. I and IV  C. II and IV  D. III and IV | A | A is the correct answer. Item A is correct because while an auditor must comply with all relevant ISAs, an ISA may not be relevant, for example, ISA 610 (Revised) if the SME has no internal audit function.  Item C is correct because specific audit procedures may vary considerably depending on the size and complexity of an entity.  Item B is incorrect. While some companies limited by guarantee do not need an audit, if they have an audit it must comply with ISAs. While the ISAs do apply to these audits, some requirements may be irrelevant to small companies. The audit plan provides the link between the requirements of the ISAs and the nature of the company.v  Item D is incorrect because the Australian standards impose some additional requirements not found in the ISAs, but in no case do they reduce the requirements of the ISAs. |
| Which of the following increase control risk?   1. Lack of segregation of duties 2. Optimistic forecasts presented to analysts 3. Reduction in sample size for substantive tests 4. Reduction in the size of the internal audit group   A. I and II  B. I and IV  C. II and III  D. III and IV | B | B is the correct answer because item I and IV are important controls, so a reduction will impact control risk.  Item II is incorrect because it refers to an increase in inherent risk.  Item III is incorrect because it refers to an increase in detection risk. Refer to ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, para. A40, for a discussion of inherent risk, and para. A41 for control risk. |
| Which of the following are considered to be auditing standards in Australia?  A. ASAs and APES 110  B. ASRE 2410 and ASQC1  C. ASAE 3000 and ASRE 2400  D. ASRS 4410 and ASRE 2410 | B | Auditing standards as indicated in ASA 101 includes all the ASAS, ASRE 2410 and ASQC 1. APES 110 is the Code of ethics for professional accountants' and this is enforced by professional bodies. It relates to the way practitioners are required to act and it is not considered an auditing standard. All other options are standards related to 'other assurance services and these do not have the full force of law. |
| What are the two key components of the audit team's discussion in relation to the susceptibility of the entity's financial statements to material misstatement?  A. Professional scepticism; Professional judgement.  B. The likelihood and impact of fraud: The entity's system of internal control.  C. The degree to which management can override controls: Professional scepticism.  D. Materiality levels from the prior year, Adjusted and unadjusted misstatements from prior years. | A | Two key components of the discussion of the susceptibility of the financial statements to material misstatement are professional judgement and professional scepticism. Professional scepticism and professional judgment are essential to an auditor's decision-making and together are key inputs to audit quality.  Professional scepticism facilitates the appropriate exercise of professional judgment by an auditor. Professional scepticism is an attitude applied by auditors in making their professional judgments and provides a basis for the auditors' action.  Documentation of these professional judgments and actions, in turn, provides evidence that professional scepticism was applied. For example, the ISAs require the documentation of discussion of the significance of matters (including the nature of those matters, when they were discussed and with whom the discussions took place). |
| Which of the following relating to accountability is not correct?  A. Accountability assumes the existence of at least two parties.  B. Accountability is a duty to answer for a responsibility that has been conferred  C. Accountability can be self-initiated by a person who wants to be responsible for personal actions.  D. Accountability can be viewed as a requirement to give account for a charge that has been entrusted to someone. | C | Accountability is defined as being responsible for your decisions or actions and [being able to explain them when you are asked' (Oxford Learner's Dictionary). The idea of accountability assumes the existence of at least two parties: 1. one who allocates responsibility (the parliament, also known as the client), and 2 one who accepts it. Therefore, C is the only option that is not correct since accountability is not a self-initiate act or requirement. |
| Which of the following statements best describes the term 'assurance services'?  A. The assembly of financial statements based on assumptions of a responsible party.  B. Services designed for the improvement of operations, resulting in better outcomes.  C. Services designed to express an opinion on historical financial statements based on the results of an audit.  D. Independent professional services that improve the credibility of information, or its context, for decision makers. | D | D is correct. It is the best description of assurance services because it makes reference to the independence of the assurance practitioner and the objective of improving the quality of the information that is the subject matter of the assurance service. It also makes reference to the users: the decision makers who intend to rely on the information.  A and B are incorrect because they are not assurance services - they are classified as related services: A is a compilation of financial information, and B is a consulting engagement.  C is incorrect because the statement refers to the objective of a financial statement audit. It does not describe assurance services, and a financial statement audit is only a subset or type of assurance service. |
| For a financial audit of a government department carried out by an auditor-general's office, which of the following would not be an output of the audit?  A. An audit opinion on the financial statements  B. A report to parliament on significant issues arising out of the audit.  C. An opinion on whether taxpayers' money is spent efficiently, effectively and economically.  D. A letter to the governing body of the auditee that includes observations about the quality of internal controls. | C | C is correct because an opinion on economy, efficiency and/or effectiveness is the result of a performance audit. Performance audits may be performed along with a financial audit but are not part of a financial audit.  A is incorrect because as for any financial statement audit, the auditor would be expected to express an opinion on the financial statements.  B is incorrect because this does not differ from any financial statement audit where it would be expected that the auditor would provide a report and the report would be submitted to the governing body (parliament in this case).  D is incorrect because as for any financial statement audit, significant matters regarding internal controls would be communicated to those charged with governance. |
| Which of the following would not be a valid consideration during the audit of an SME?  A. If an ISA is relevant to an SME, all requirements of that ISA must be applied in full during the audit.  B. Standard audit programs or checklists, drawn up on the assumption of a few relevant control activities, may be used to plan the audit.  C. The form, content and extent of audit documentation required is permitted to vary in relation to the size and complexity of the SME being audited.  D. The auditor must comply with all ISAs, except for those that are not relevant and the auditor must document rationale for determining which standards are deemed not relevant. | A | Even when an ISA is relevant to an SME, not all requirements of every ISA will be relevant when performing the audit of an SME.  For example, holding an engagement team discussion as part of the risk assessment activities would not be appropriate if the audit team consisted of only one person. |
| Which of the following relating to the audit of SMEs is correct?  A. All the ISAs must be fully applied  B. The auditor can apply 'ISAs for SMEs which are specifically for such organisations  C. The ISAs can be proportionately applied.  D. The ISAs requirements relating to evidence gathering is reduced | C | The third option is correct because the IAASB have indicated that the ISAs should be applied proportionately to the audit of SMEs based on the size and complexity of the entity.  The first option is not correct as it is often not possible to apply all the ISA requirements to the audit of SMEs because certain requirements may be irrelevant.  The second option is incorrect because there are no such standards as ISAs for SMEs. There are standards called IFRS for SMEs but this relates to financial reporting and not auditing of SMEs.  The fourth option is incorrect as the same requirements for evidence gathering would be applicable to audits of SMEs as well as large entities. |
| SMP Ltd has two audit clients. The clients contribute to SMP Lid's total revenue on a ratio of 60% and 40% respectively. Due to there only being two audit clients, the partner of SMP Ltd has excellent business relations with the management of both entities.  SMP Ltd does provide non-assurance services to these clients which are non-accounting related  Which of the following provides the greatest  threat to the fundamental principles of ethics?  A Advocacy  B. Familiarity  C. Self-review  D. Self-interest | D | The most likely threat from this situation is self-interest because SMP Ltd is dependent on both these clients for its revenue Hence, SMP Ltd would not want to ask difficult questions or provide a bad audit opinion which would sour the relationship and affect its revenue stream as this would affect the going concern ability of SMP LTD.  Familiarity is also a threat but not the greatest threat, based on the fact that the information relates to an excellent business relationship and not a 'long or personal relationship which extends beyond the professional environment.  There is no information in the question that would suggest that advocacy and self-review are affected. The provision of non-assurance services are not accounting related so would not result in a self-review threat. |
| Which of the following are self-interest threats to objectivity?   1. Receiving gifts from clients 2. Competing directly with the client 3. Personal friendship with the CEO and CFO of the client 4. Auditing a client when your firm redesigned the internal control system in the previous year   A. I and II  B. I and IV  C. II and III  D. III and IV | A | The correct answer is A because they can impact on objectivity as explained in the Study guide. Both clearly may result in economic benefits for the auditor, which are the primary source of self interest threats.  Item III is incorrect because it is a familiarity threat, not a self-interest threat. Friendship might bias the auditor's professional judgement.  Item IV is incorrect because it is a self-review threat rather than a self-interest threat. |
| Which of the following statements are correct?   1. Some ISAs may not be relevant to small entities. 2. ISAs do not apply to companies limited by guarantee 3. Specific audit procedures to comply with ISAs may vary depending on the size of the entity. 4. In some instances, the Australian auditing standards permit auditors to ignore the requirements of the ISAs.   A. I and III  B. I and IV  C. II and IV  D. III and IV | A | A is the correct answer. Item A is correct because while an auditor must comply with all relevant ISAs, an ISA may not be relevant, for example, ISA 610 (Revised) if the SME has no internal audit function.  Item C is correct because specific audit procedures may vary considerably depending on the size and complexity of an entity.  Item B is incorrect. While some companies limited by guarantee do not need an audit, if they have an audit it must comply with ISAs. While the ISAs do apply to these audits, some requirements may be irrelevant to small companies. The audit plan provides the link between the requirements of the ISAs and the nature of the company.v  Item D is incorrect because the Australian standards impose some additional requirements not found in the ISAs, but in no case do they reduce the requirements of the ISAs. |
| Which of the following increase control risk?   1. Lack of segregation of duties 2. Optimistic forecasts presented to analysts 3. Reduction in sample size for substantive tests 4. Reduction in the size of the internal audit group   A. I and II  B. I and IV  C. II and III  D. III and IV | B | B is the correct answer because item I and IV are important controls, so a reduction will impact control risk.  Item II is incorrect because it refers to an increase in inherent risk.  Item III is incorrect because it refers to an increase in detection risk.  Refer to ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, para. A40, for a discussion of inherent risk, and para. A41 for control risk. |