

Chapter 01 Testbank

Student: _____

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

- A. Three-party relationship.
- B. Approved assurance standards.
- C. Sufficient appropriate evidence.
- 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. The entity's Board of Directors.
- C. Auditor who signs the auditor's report.
- D. The Australian Securities and Investments Commission.

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

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- 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:

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- 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:

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

7 Which of the following can be the underlying subject matter of the audit?

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

12 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.

13 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.

14 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.

15 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.

16 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.

17 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.

18 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.

19 Which of the following is not an attribute of an external auditor?

- A. Client advocacy.
- B. Integrity.
- C. Professional competence with regards to underlying subject matter.
- D. Objectivity.

20 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.

21 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.

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

- A. those charged with the governance of the company.
- B. the partner assigned to the audit engagement.
- C. the Australian Securities and Investments Commission.
- D. the auditor in charge of the fieldwork.

23 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 Australian Securities and Investments Commission.
- D. those charged with the governance of the company'.

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

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

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

- A. information can vary in its comparability.
- 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.

26 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.

27 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.

28 Which of the following is considered to be an enhancing characteristic of financial information that has been audited?

- A. Comparability.
- B. Existence.
- C. Occurrence.
- D. Periodicity.

29 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.

30 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.

31 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.

32 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. approved auditing 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.
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33 What has been the major recent proposal by the IAASB to reduce the expectations gap?

- A. A statutory limitation on auditor's liability.
- B. A confidential report to those charged with governance.
- C. A separate report to the independent audit regulatory
- D. Amendments to the Auditor's Report.

34 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.

35 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. ability to communicate different levels of assurance 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.

36 The performance gap part of the expectations gap, as defined by Porter, is a combination of which two components?

- A. Information gap and communications gap.
- B. Deficient standards and deficient performance.
- C. Reasonableness gap and deficient standards.
- D. Communications gap and deficient performance.

37 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, Chartered Accountants Australia and New Zealand and the Institute of Public Accountants).

38 Who is responsible for developing and approving international auditing and assurance standards?

- A. The International Auditing and Assurance Standards Board.
- B. The Australian Auditing and Assurance Standards Board.
- C. The International Forum for Independent Audit Regulators.
- D. The International Accounting Standards Board.

39 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.

40 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 directors' declaration.
- D. no additional information should be added to the financial report.

41 Approved auditing standards prescribe:

- A. The basic principles of the audit, with the essential procedures and guidance contained in Guidance statements.
- B. The basic principles and general guidance, with essential procedures contained in Guidance statements.
- C. The basic principles and essential procedures of the audit with general guidance contained in Guidance statements.
- D. The basic principles and essential procedures of the audit together with related general guidance with guidance on procedural matters or on entity or industry-specific issues contained in Guidance statements.

42 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.

43 Forensic audits include all of the following except:

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

44 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.

45 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 Testbank Key

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

- A. Three-party relationship.
- B.** Approved assurance standards.
- C. Sufficient appropriate evidence.
- D. A written assurance report.

*AACSB: Analytic
Difficulty: Easy*

*Learning Objective: 01.01 Understand the framework for assurance engagements and the types of assurance engagements that can be provided
Topic: The framework for assurance engagements and the types of assurance engagements*

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:

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- A.** a discipline that assures financial information presented by management.
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Difficulty: Easy*

*Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit
Topic: Auditing—definition and fundamental principles*

12 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.

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Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit

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- A. testifying under oath about client financial information.
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- D. a branch of accounting.

AACSB: Analytic

Difficulty: Easy

Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit

Topic: Auditing—definition and fundamental principles

16 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.

AACSB: Analytic

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

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

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*Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit
Topic: Auditing—definition and fundamental principles*

19 Which of the following is not an attribute of an external auditor?

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

AACSB: Analytic

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Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit

Topic: Auditing—definition and fundamental principles

20 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.

AACSB: Analytic

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Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit

Topic: Auditing—definition and fundamental principles

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B. Integrity.

C. Knowledge.

D. Confidentiality.

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Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit

Topic: Auditing—definition and fundamental principles

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

- A.** those charged with the governance of the company.
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*Learning Objective: 01.03 Appreciate the attributes of accounting information and understand the reasons giving rise to the demand for assurance
Topic: Attributes of accounting information and the demand for assurance*

23 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:

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A confidential report to those charged with governance.
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*Learning Objective: 01.04 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 and appreciate the relationships between the auditor, the client and the public
Topic: The auditor-client-public relationship and the expectation gap*

34 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.

AACSB: Analytic

Difficulty: Easy

Learning Objective: 01.04 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 and appreciate the relationships between the auditor, the client and the public

Topic: The auditor-client-public relationship and the expectation gap

35 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. ability to communicate different levels of assurance 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.

AACSB: Analytic

Difficulty: Medium

Learning Objective: 01.04 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 and appreciate the relationships between the auditor, the client and the public

Topic: The auditor-client-public relationship and the expectation gap

36 The performance gap part of the expectations gap, as defined by Porter, is a combination of which two components?

- A. Information gap and communications gap.
- B. Deficient standards and deficient performance.**
- C. Reasonableness gap and deficient standards.
- D. Communications gap and deficient performance.

*AACSB: Analytic
Difficulty: Medium*

*Learning Objective: 01.02 Define auditing and appreciate the fundamental principles underlying an audit
Learning Objective: 01.04 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 and appreciate the relationships between the auditor, the client and the public
Topic: The auditor-client-public relationship and the expectation gap*

37 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, Chartered Accountants Australia and New Zealand and the Institute of Public Accountants).

*AACSB: Analytic
Difficulty: Medium*

*Learning Objective: 01.05 Appreciate the role of auditing standards and their authority under the Corporations Act 2001
Topic: The role and authority of auditing standards*

38 Who is responsible for developing and approving international auditing and assurance standards?

- A. The International Auditing and Assurance Standards Board.**
- B. The Australian Auditing and Assurance Standards Board.
- C. The International Forum for Independent Audit Regulators.
- D. The International Accounting Standards Board.

*AACSB: Analytic
Difficulty: Easy*

39 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.

AACSB: Analytic
Difficulty: Easy

Learning Objective: 01.05 Appreciate the role of auditing standards and their authority under the Corporations Act 2001
Topic: The role and authority of auditing standards

40 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 directors' declaration.
- D. no additional information should be added to the financial report.

AACSB: Analytic
Difficulty: Medium

Learning Objective: 01.05 Appreciate the role of auditing standards and their authority under the Corporations Act 2001
Topic: The role and authority of auditing standards

41 Approved auditing standards prescribe:

- A. The basic principles of the audit, with the essential procedures and guidance contained in Guidance statements.
- B. The basic principles and general guidance, with essential procedures contained in Guidance statements.
- C. The basic principles and essential procedures of the audit with general guidance contained in Guidance statements.
- D.** The basic principles and essential procedures of the audit together with related general guidance with guidance on procedural matters or on entity or industry-specific issues contained in Guidance statements.

*AACSB: Analytic
Difficulty: Medium*

*Learning Objective: 01.05 Appreciate the role of auditing standards and their authority under the Corporations Act 2001
Topic: The role and authority of auditing standards*

42 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.

*AACSB: Analytic
Difficulty: Easy*

*Learning Objective: 01.06 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
Topic: Other applications of the assurance function*

43 Forensic audits include all of the following except:

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

*AACSB: Analytic
Difficulty: Easy*

Learning Objective: 01.06 Obtain an overview of other applications of the assurance function, including compliance auditing, performance auditing, comprehensive

44 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.

AACSB: Analytic
Difficulty: Easy

Learning Objective: 01.06 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
Topic: Other applications of the assurance function

45 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.

AACSB: Analytic
Difficulty: Medium

Learning Objective: 01.06 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
Topic: Other applications of the assurance function

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