

Part II. Audit process by phase – 1. Client acceptance

Quiz 1: According to ISA 200, the risk of material misstatement consists of which components?

- a) Inherent risk, control risk and detection risk.
- b) Control risk and detection risk.
- c) Inherent risk and detection risk.
- d) Inherent risk and control risk.

Quiz 2: ISA 200 contains the following definition: 'An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.' What does this define?

- a) Professional judgment.
- b) Professional competence.
- c) Professional behavior.
- d) Professional skepticism.

Quiz 3: According to ISA 200, what is the purpose of an audit?

- a) To help management achieve its responsibility for the presentation of financial statements.
- b) To report to shareholders on the truth and fairness of the financial statements.
- c) To enhance the degree of confidence of the intended users of the financial statements.
- d) To ensure the financial statements are free from error.

Quiz 4: Which parts of an ISA need to be understood by the auditor? (i) Objectives (ii) Requirements (iii) Introductory material (iv) Application and explanatory material:

- a) All of them.
- b) (i) (ii) and (iv).
- c) (i), (ii) and (iii).
- d) (i) and (ii).

Quiz 5: The IAASB appreciates that the auditor of smaller entities may have specific concerns. How are these concerns addressed?

- a) The application material contains separate sections dealing with considerations specific to smaller entities.
- b) ISAs do not have to be followed in the audit of smaller entities.
- c) The auditor can agree with management of smaller entities to ignore ISA requirements, as long as this is disclosed in the auditor's report.
- d) There are a separate set of requirements relevant to the audit of smaller entities.

Quiz 6: ISA 200 requires the auditor to comply with ethical requirements. Which ethical principle is specifically referred to in this requirement?

- a) Objectivity.
- b) Confidentiality.
- c) Independence.

d) Competence.

Quiz 7: ISA 200 requires that the auditor obtains what level of assurance about whether the financial statements are free of material misstatement?

- a) Absolute.
- b) Reasonable.
- c) Moderate.
- d) Medium.

Quiz 8: In exceptional circumstances, the auditor may judge it necessary to depart from the requirement of an ISA. What action should the auditor take in this situation? (i) perform alternative procedures (ii) conclude that a limitation on scope exists (iii) document the reason for the departure (iv) conclude that the objective relating to the requirement cannot be achieved:

- a) (i) and (iii).
- b) (ii) and (iv).
- c) (ii) only.
- d) (iii) only.

Quiz 9: What does Clarified ISA 240 regard as a significant risk?

- a) The risk attached to estimates.
- b) The risk of box ticking by the audit team.
- c) The risk of management override.
- d) The risks attached to journal entries.

Quiz 10: Is the following statement true or false? A significant change in the ownership of an existing audit client is a factor which makes it appropriate for the auditor to review the terms of engagement.

- a) True.
- b) False.

Quiz 11: Which TWO of the following should be included in an audit engagement letter?

- (1) Objective and scope of the audit.
 - (2) Results of previous audits.
 - (3) Management's responsibilities.
 - (4) Need to maintain professional skepticism.
- a) 1 and 2.
 - b) 1 and 3.
 - c) 2 and 4.
 - d) 3 and 4.

Quiz 12: Which of the following is NOT a responsibility of the auditor?

- a) To provide an opinion on the truth and fairness of the financial statements.

- b) To conduct an audit in accordance with International Standards on Auditing.
- c) To express an opinion on the company's going concern status.

Quiz 13: Which of the following statements, relating to the auditor's reporting responsibilities for going concern, if any, is/are correct?

(1) Where management is unwilling to make their assessment of the company's ability to continue as a going concern, the auditor should include an emphasis of matter paragraph in the audit report.

(2) Where the use of the going concern assumption is inappropriate, the auditor should include a qualified opinion in the audit report.

- a) 1 only.
- b) 2 only.
- c) Both 1 and 2.
- d) Neither 1 nor 2.

Quiz 14: Which of the following factors would be most likely to cause a professional auditor in public practice to decline a new audit engagement?

- a) The prospective client has already completed its physical inventory count.
- b) The auditor lacks an understanding of the prospective client's operations and industry.
- c) The auditor is unable to review the predecessor auditor's working papers.
- d) The prospective client is unwilling to make all financial records available to the auditor.

Quiz 15: A group auditor decides not to refer to the audit of another auditor who audited a subsidiary of the group auditor's client. After making inquiries about the other auditor's professional reputation and independence, the group auditor most likely would:

- a) Add an explanatory paragraph to the auditor's report indicating that the subsidiary's financial statements are not material to the consolidated financial statements.
- b) Document in the engagement letter that the group auditor assumes no responsibility for the other auditor's work and opinion.
- c) Obtain written permission from the other auditor to omit the reference in the group auditor's report.
- d) Contact the other auditor and review the audit program and working papers pertaining to the subsidiary.

Quiz 16: Before accepting an audit engagement, a successor (proposed) auditor should make specific inquiries of the predecessor (existing) auditor regarding:

- a) Disagreements the predecessor had with the client concerning auditing procedures and accounting principles.
- b) The predecessor's evaluation of matters of continuing accounting significance.
- c) Opinion of any subsequent events occurring since the predecessor's audit report was issued.
- d) The predecessor's assessments of inherent risk and judgments about materiality.

Quiz 17: Which of the following matters is generally included in an auditor's engagement letter?

- a) Management's liability for illegal acts.
- b) The factors to be considered in setting judgments about audit risk.
- c) Management's responsibility for the entity's financial statements.
- d) Management's responsibility to investigate internal control deficiencies.