

Part II. Audit process by phase – 2. Planning

Quiz 1: In obtaining an understanding of an entity's internal controls that are relevant to audit planning, an auditor is required to obtain knowledge about the:

- a) Design of relevant internal controls pertaining to financial reporting in each of the five internal control components.
- b) Effectiveness of the internal controls that have been placed in operation.
- c) Consistency with which the internal controls are currently being applied.
- d) Controls related to each principal transaction class and account balance.

Quiz 2: The risk that an auditor will conclude, based on substantive tests, that a material misstatement does not exist in an account balance when, in fact, such misstatement does exist is referred to as:

- a) Sampling Risk.
- b) Detection Risk.
- c) Nonsampling Risk.
- d) Inherent Risk.

Quiz 3: Relationship between control risk and detection risk is ordinarily:

- a) Parallel.
- b) Inverse.
- c) Direct.
- d) Equal.

Quiz 4: The audit program usually cannot be finalized until the:

- a) Consideration of the entity's internal control has been completed.
- b) Engagement letter has been signed by the auditor and the client.
- c) Audit findings have been communicated to the audit committee of the board of directors.
- d) Search for unrecorded liabilities has been performed and documented.

Quiz 5: Which of the following relatively small misstatements most likely could have a material effect on an entity's financial statements?

- a) An illegal payment to a foreign official that was not recorded.
- b) A piece of obsolete office equipment that was not retired.
- c) A petty cash fund disbursement that was not properly authorized.
- d) An uncollectible account receivable that was not written off.

Quiz 6: When considering internal control, an auditor should be aware of the concept of reasonable assurance, which recognizes that:

- a) Internal control may be ineffective due to mistakes in judgment and personal carelessness.
- b) Adequate safeguards over access to assets and records should permit an entity to maintain proper accountability.
- c) Establishing and maintaining internal control is an important responsibility of management.

- d) The cost of an entity's internal control should not exceed the benefits expected to be derived.

Quiz 7: During the consideration of internal control in a financial statement audit, an auditor is not obligated to:

- a) Search for significant deficiencies in the operation of the internal control.
- b) Understand the internal control and the information system.
- c) Determine whether the control activities relevant to audit planning have been placed in operation.
- d) Perform procedures to understand the design of internal control.

Quiz 8: Which of the following is not a component of an entity's internal control?

- a) Control risk.
- b) Control activities.
- c) Monitoring.
- d) Control environment.

Quiz 9: The overall attitude and awareness of an entity's board of directors concerning the importance of internal control usually is reflected in its:

- a) Computer-based controls.
- b) System of segregation of duties.
- c) Control environment.
- d) Safeguards over access to assets.

Quiz 10: The philosophy and operating style of management would most likely have a significant influence on an entity's control environment when:

- a) The duties of all management are specifically designated.
- b) The audit committee is active in overseeing the financial reporting process.
- c) Management is dominated by one individual.
- d) The internal auditors report directly to management.

Quiz 11: Which of the following statements is correct concerning an auditor's assessment of control risk?

- a) Assessing control risk may be performed concurrently during an audit with obtaining an understanding of the entity's internal control.
- b) Evidence about the operation of internal control in prior audits may not be considered during the current year's assessment of control risk.
- c) The basis for an auditor's conclusions about the assessed level of control risk need not be documented unless control risk is assessed at the maximum.
- d) The lower the assessed level of control risk, the less assurance the evidence must provide that the control procedures are operating effectively.

Quiz 12: Proper segregation of functional responsibilities calls for separation of the functions of:

- a) Authorization, execution, and payment.
- b) Authorization, recording, and custody.
- c) Custody, execution, and reporting.
- d) Authorization, payment, and recording.

Quiz 13: Which of the following procedures most likely would provide an auditor with evidence about whether an entity's internal control activities are suitably designed to prevent or detect material misstatements?

- a) Re-performing the activities for a sample of transactions.
- b) Performing analytical procedures using data aggregated at a high level.
- c) Vouching a sample of transactions directly related to the activities.
- d) Observing the entity's personnel applying the activities.

Quiz 14: Control risk should be assessed in terms of:

- a) Special controls.
- b) Types of potential fraud.
- c) Financial statement assertions.
- d) Control environment factors.

Quiz 15: When planning an audit, the auditor's knowledge about the design of relevant internal controls should be used to:

- a) Assess the efficiency of internal controls over operations.
- b) Identify the types of potential misstatements that could occur.
- c) Report the assessed level of control risk in work papers.
- d) Evaluate which controls are circumvented due to collusion.

Quiz 16: Which of the following questions would an auditor most likely include on an internal control questionnaire for notes payable?

- a) Are assets that collateralize notes payable critically needed for the entity's continued existence?
- b) Are two or more authorized signatures required on checks that repay notes payable?
- c) Are the proceeds from notes payable used for the purchase of noncurrent assets?
- d) Does the board of directors authorize direct borrowings on notes payable?

Quiz 17: The auditor's primary reason for assessing control risk is that control risk assessment:

- a) Affects the level of detection risk that the auditor may accept.
- b) Shows the auditor where inherent risk may be the greatest.
- c) Is relevant to the auditor's understanding of the control environment.
- d) Provides assurance that the materiality level set by the auditor is appropriate.

Quiz 18: An auditor is most likely to assess control risk at the maximum if the payroll department supervisor is responsible for:

- a) Examining authorization forms for new employees.

- b) Comparing payroll registers with original batch transmittal data.
- c) Authorizing payroll rate changes for all employees.
- d) Hiring all subordinate payroll departments.

Quiz 19: In determining the effectiveness of an entity's internal controls relating to the existence or occurrence assertion for payroll transactions, an auditor most likely would inquire about and:

- a) Observe the segregation of duties concerning personnel responsibilities and payroll disbursement.
- b) Inspect evidence of accounting for prenumbered payroll checks.
- c) Recompute the payroll deductions for employee fringe benefits.
- d) Verify the preparation of the monthly payroll account bank reconciliation.

Quiz 20: An auditor wishes to perform tests of controls on cash disbursements procedures. If the controls leave no audit trail of documentary evidence, the auditor most likely will test the procedures by:

- a) Inquiry and analytical procedures.
- b) Confirmation and observation.
- c) Analytical procedures and confirmation.
- d) Observation and inquiry.

Quiz 21: In assessing control risk, an auditor ordinarily selects from a variety of techniques, including:

- a) Inquiry and analytical procedures.
- b) Reperformance and observation.
- c) Comparison and confirmation.
- d) Inspection and verification.

Quiz 22: After assessing control risk at below the maximum level, an auditor desires to seek a further reduction in the assessed level of control risk. At this time, the auditor would consider whether:

- a) It would be efficient to obtain an understanding of the entity's information system.
- b) The entity's controls have been placed in operation.
- c) The entity's controls pertain to any financial statement assertions.
- d) Additional evidential matter sufficient to support a further reduction is likely to be available.

Quiz 23: What would constitute performance materiality in accordance with ISA 320?

- a) An amount that is less than the overall materiality level set by taking into account the general risk of material misstatement associated with the audit and specific risks, like past uncorrected errors and the probability that undetected errors exist.
- b) An amount or amounts higher than the overall materiality level.
- c) An amount set at 50% of the overall and particular assertions materiality level.
- d) An amount below the overall materiality level set at random by the auditor.

Quiz 24: What does ISA 315 require in order to identify and assess the risks of material misstatement?

- a) Ask the management of the entity to identify the risks relating to the financial statements that they have prepared.
- b) To identify risks throughout the process of obtaining an understanding of the entity and its environment and to assess the potential impact of such risks on the accounts as a whole and on specific assertions.
- c) To carefully read the financial statements.
- d) To perform analytical procedures on the material items in the financial statements.

Quiz 25: Identify specific objectives, requirements and separate application and explanatory material that guide the auditor in identifying and assessing risks of material misstatement, in obtaining sufficient appropriate audit evidence by designing appropriate responses to the assessed risks, and in forming an opinion on the basis of the evidence obtained:

- a) Identify specific objectives, requirements and separate application and explanatory material that guide the auditor in identifying how the business should be developed.
- b) Identify specific objectives, requirements and separate application and explanatory material that guide the business in identifying and assessing.
- c) Design appropriate responses for the auditor to discuss with the directors.
- d) Its risk of material misstatement, by obtaining sufficient appropriate internal evidence and by the assessment of risks.

Quiz 26: What does ISA 540 require as a response to significant risks arising from estimates with high levels of uncertainty?

- a) Ask management not to include the estimates in the financial statements.
- b) Do not consider events occurring up to the date of the auditor's report.
- c) Evaluating if and how management has considered alternative assumptions and outcomes and addressed estimation uncertainty.
- d) Obtain confirmations from management that the estimates are free from error.