CHAPTER 4

Audit Evidence

MULTIPLE CHOICE QUESTIONS

1. How is audit evidence defined?
(*a*) Information used by management
(*b*) Information used by the auditor in arriving at conclusions for the financial statements
(*c*) Financial statements themselves
(*d*) Expert knowledge and experience of the auditor

2. What are the broad types of evidence mentioned in the text?
(*a*) Only documentary examination
(*b*) Only physical examination
(*c*) A variety including documentary examination, physical examination, and statements
(*d*) Only internal controls

3. What is an example of the best evidence for verifying cash in hand?
(*a*) Documentary examination of cash transactions
(*b*) Bank statement reconciliation
(*c*) Counting cash
(*d*) Auditor's arithmetical calculations

4. For verifying assertions about book debts, what are some examples of evidence mentioned in the text?
(*a*) Only balance confirmation procedure
(*b*) Only client's ledger invoices
(*c*) A variety including client's ledger invoices, debit notes, credit notes, and monthly accounts statements
(*d*) Only banker's certificates

5. What is the auditor's task regarding the weight of each piece of evidence?
(*a*) To ignore any evidence that is available
(*b*) To prioritize verification procedures based on evidence weight
(*c*) To consider all evidence equally
(*d*) To delegate the evaluation of evidence to management

6. What does the word "available" mean in the context of evidence?
  (*a*) Evidence available with the client is the only available evidence
  (*b*) Evidence available with the client is the most reliable evidence
  (*c*) Evidence that is easily accessible to the auditor
  (*d*) Evidence that is typically available in the context of the transaction

7. What should the auditor know about evidence availability?
  (*a*) Only evidence available with the client
  (*b*) Only evidence available through internal controls
  (*c*) What normally should be available in the context of the transaction
  (*d*) Evidence availability is not a relevant consideration

8. In the context of evidence, what is balance confirmation?
  (*a*) Only a variety of internal controls
  (*b*) A procedure for obtaining greater satisfaction about the reliability of an assertion
  (*c*) A type of documentary examination
  (*d*) An arithmetical calculation by the auditor

9. What is the purpose of internal controls and internal checks as evidence?
  (*a*) To limit the evidence available to the auditor
  (*b*) To expedite the audit process
  (*c*) To prove or disprove assertions
  (*d*) To increase the complexity of audit procedures

10. What does an auditor pick up evidence from?
  (*a*) Only client's ledger invoices
  (*b*) Only statements and explanations of management, officials, and employees
  (*c*) A variety of fields, including documentary examination, physical examination, and statements
  (*d*) Only arithmetical calculations by the auditor

11. What is considered part of the accounting records when gathering audit evidence?
  (*a*) Social media interactions
  (*b*) Minutes of the meetings
  (*c*) Invoices and contracts
  (*d*) Weather reports

12. Which of the following is an example of supporting records included in accounting records?
  (*a*) Diary entries
  (*b*) Cheques and records of electronic fund transfers
  (*c*) Personal emails
  (*d*) Movie tickets

13. What type of information supports the auditor's rationale behind the true and fair presentation of financial statements?
  (*a*) Fictional stories
  (*b*) Records of weather forecasts

(*c*) Manuals containing details of internal control
(*d*) Unrelated poetry

14. In addition to accounting records, what may the auditor use as evidence to authenticate financial statements?
(*a*) Personal diaries of employees
(*b*) Minutes of the meetings
(*c*) Unrelated cartoons
(*d*) Telephone directories

15. What type of evidence is obtained through observing the physical verification of inventory conducted by the client's staff?
(*a*) Visual evidence
(*b*) Oral evidence
(*c*) Documentary evidence
(*d*) External evidence

16. Which of the following is an example of internal evidence in an audit situation?
(*a*) Purchase invoice
(*b*) Supplier's challan
(*c*) Inspection report
(*d*) Quotations

17. External evidence is generally considered more reliable because it:
(*a*) Originates within the organization being audited
(*b*) Comes from third parties not interested in manipulation
(*c*) Is always accurate and truthful
(*d*) Requires less verification by the auditor

18. In an audit, what type of evidence is obtained through discussion with the management and various officers of the client?
(*a*) External evidence
(*b*) Visual evidence
(*c*) Oral evidence
(*d*) Documentary evidence

19. What is the auditor advised to be careful about when relying on internal evidence?
(*a*) External evidence is more reliable
(*b*) External evidence is less reliable
(*c*) Possibilities of manipulation and creation of false evidence
(*d*) Internal evidence is always accurate

20. What is the relationship between the auditor's opinion on financial statements and the relevance and reliability of audit evidence?
(*a*) Irrelevant to the opinion
(*b*) Directly impacts the opinion
(*c*) Reliability is more important than relevance
(*d*) Relevance is more important than reliability

21. How does relevance of information used as audit evidence relate to the purpose of the audit procedure?
(*a*) Irrelevant to the purpose
(*b*) Independently determined
(*c*) Logical connection with the purpose
(*d*) Unrelated to the assertion

22. What is the primary factor influencing the reliability of information used as audit evidence?

(*a*) Audit procedures
(*b*) Direction of testing
(*c*) Source and nature of information
(*d*) Assertion under consideration

23. When testing for overstatement in the existence or valuation of accounts payable, what is considered a relevant audit procedure?

(*a*) Testing subsequent disbursements
(*b*) Inspecting unpaid invoices
(*c*) Verifying suppliers' statements
(*d*) All of the above

24. In testing for understatement in the existence or valuation of accounts payable, which audit procedure is considered relevant?

(*a*) Inspecting unpaid invoices
(*b*) Testing subsequent disbursements
(*c*) Verifying suppliers' statements
(*d*) All of the above

25. When designing tests of controls, what is the purpose of identifying conditions that indicate performance of a control?

(*a*) Establishing irrelevant criteria
(*b*) Demonstrating a lack of controls
(*c*) Evaluating operating effectiveness
(*d*) Confirming financial statement amounts

26. What is the primary focus of substantive procedures in the audit process?

(*a*) Evaluating operating effectiveness
(*b*) Detecting material misstatements
(*c*) Identifying conditions for controls
(*d*) Confirming management assertions

27. Tests of details and substantive analytical procedures are components of which type of audit procedures?

(*a*) Tests of controls
(*b*) Substantive procedures
(*c*) Compliance testing
(*d*) Analytical controls

28. What does designing substantive procedures involve in the context of identifying conditions relevant to the purpose of the test?

(*a*) Confirming controls
(*b*) Establishing irrelevant criteria
(*c*) Detecting material misstatements
(*d*) Evaluating operating effectiveness

29. When performing tests of controls, what does the auditor identify to test the presence or absence of conditions indicating performance of a control?

(*a*) Assertions
(*b*) Deviation in conditions
(*c*) Analytical procedures
(*d*) Substantive evidence

30. Why is inspection of documents related to the collection of receivables after the period end considered relevant audit evidence?

(*a*) Confirms cut-off accuracy
(*b*) Supports existence and valuation
(*c*) Verifies the completeness of controls
(*d*) Substitutes for substantive analytical procedures

31. In terms of relevance, what is important to note about audit evidence from different sources or of different nature?

(*a*) It's irrelevant to the assertion
(*b*) It's never considered reliable
(*c*) It's often relevant to the same assertion
(*d*) It can't be used in the audit process

32. What is the primary focus of tests of details in substantive procedures?

(*a*) Confirming controls
(*b*) Detecting material misstatements
(*c*) Evaluating operating effectiveness
(*d*) Identifying conditions for controls

33. Why is it advised for the auditor to match internal and external evidence in an audit?

(*a*) Internal evidence is always reliable
(*b*) External evidence is irrelevant
(*c*) To minimize reliance on internal evidence
(*d*) To enhance the reliability of audit evidence

34. In terms of relevance, what is emphasized when testing for overstatement in the existence or valuation of accounts payable?

(*a*) Testing subsequent disbursements
(*b*) Logical connection with the purpose
(*c*) Testing recorded accounts payable
(*d*) Inspecting unpaid invoices

35. What factor significantly influences the reliability of audit evidence?

(*a*) The auditor's experience
(*b*) The nature of the audit procedure
(*c*) The source and nature of the information
(*d*) The length of the audit engagement

36. Under what circumstances might information obtained from an independent external source be unreliable?

(*a*) Lack of objectivity
(*b*) Over-reliance on controls
(*c*) Enhanced knowledgeability
(*d*) Lengthy audit procedures

37. When is the reliability of audit evidence generated internally increased?

(*a*) When controls are ineffective
(*b*) When related controls are effective
(*c*) When external sources are involved
(*d*) When the auditor is not directly involved

38. Which type of audit evidence is generally more reliable than evidence obtained orally?

(*a*) Contemporaneously written records
(*b*) Verbal representations
(*c*) Inference-based evidence
(*d*) Photocopied documents

39. In the context of documentary evidence, what is considered more reliable than evidence obtained orally?

(*a*) Electronic documents
(*b*) Photocopies
(*c*) Subsequent oral representations
(*d*) Contemporaneously written records

40. Why is audit evidence obtained as original documents considered more reliable than photocopies or facsimiles?

(*a*) Due to the length of the audit engagement
(*b*) Dependence on controls

(*c*) Enhanced knowledgeability
(*d*) Controls over preparation and maintenance

41. Which audit evidence is generally more reliable when transformed into electronic form?
(*a*) Original documents
(*b*) Photocopies
(*c*) Facsimiles
(*d*) Contemporaneously written records

42. What is the primary measure of the quantity of audit evidence?
(*a*) Appropriateness
(*b*) Sufficiency
(*c*) Reliability
(*d*) Quality

43. How does the auditor's assessment of risks of misstatement impact the quantity of audit evidence needed?
(*a*) Higher risks require less evidence
(*b*) Higher risks require more evidence
(*c*) Risks have no impact on evidence
(*d*) Evidence is unrelated to risk assessment

44. What influences the reliability of audit evidence?
(*a*) The auditor's experience
(*b*) The quantity of evidence
(*c*) The source and nature of evidence
(*d*) The assessed risks of misstatement

45. How does the quality of audit evidence impact the quantity required?
(*a*) Higher quality requires more evidence
(*b*) Higher quality requires less evidence
(*c*) Quality is unrelated to quantity
(*d*) Quality and quantity are inversely related

46. What is the primary purpose of obtaining audit evidence?
(*a*) Supporting management's assertions
(*b*) Contradicting management's assertions
(*c*) Forming the auditor's opinion
(*d*) Fulfilling regulatory requirements

47. In addition to audit procedures, where else can audit evidence be derived from?
(*a*) Only from inspection
(*b*) Only from external sources
(*c*) Previous audits and the entity's accounting records
(*d*) Exclusively from inquiry

48. What constitutes audit evidence in some cases, indicating management's refusal to provide a requested representation?
(*a*) Presence of information
(*b*) Contradictory information
(*c*) Absence of information
(*d*) External information

49. Which of the following is NOT a type of audit procedure used to obtain audit evidence?
(*a*) Recalculation
(*b*) Reperformance
(*c*) Supervision
(*d*) Confirmation

50. When is reasonable assurance obtained in an audit?

(*a*) When all audit procedures are completed

(*b*) When audit risk is reduced to an acceptably low level

(*c*) When no material misstatements are found

(*d*) When the audit is free from errors

51. How does materiality impact the amount of evidence required in an audit?

(*a*) More evidence is required for less material assertions

(*b*) Less evidence is required for less material assertions

(*c*) More evidence is required for more material assertions

(*d*) Evidence requirement is independent of materiality

52. What is inherent risk in the context of risk of material misstatement?

(*a*) The risk that internal controls will not prevent misstatements

(*b*) The risk that a misstatement could occur before considering controls

(*c*) The risk that auditors will not detect misstatements

(*d*) The risk that financial statements are materially misstated

53. How does the size and characteristics of a population affect the evidence requirement in an audit?

(*a*) Less evidence for larger, more heterogeneous populations

(*b*) More evidence for larger, more heterogeneous populations

(*c*) Less evidence for smaller, more homogeneous populations

(*d*) Evidence requirement is independent of population size

54. What is control risk in the context of risk of material misstatement?

(*a*) The risk that financial statements are materially misstated

(*b*) The risk that internal controls will not prevent misstatements

(*c*) The risk that auditors will not detect misstatements

(*d*) The risk that a misstatement could occur before considering controls

55. In the context of risk of material misstatement, what does less evidence imply about the risk level?

(*a*) Lower risk of material misstatement

(*b*) Higher risk of material misstatement

(*c*) Independent of risk of material misstatement

(*d*) Lower risk of detection

56. How does the auditor obtain audit evidence through testing accounting records?

(*a*) By analyzing and reviewing unrelated information

(*b*) By performing procedures like reperformance and reconciliation

(*c*) By relying solely on internal consistency

(*d*) By reviewing management representations

57. What is the significance of consistent audit evidence from different sources?
(*a*) Less assurance is obtained from consistent evidence
(*b*) More assurance is obtained from consistent evidence
(*c*) Consistency does not affect the level of assurance
(*d*) Consistency is irrelevant in audit evidence

58. How can the auditor increase assurance by using corroborating information?
(*a*) By relying solely on internal evidence
(*b*) By avoiding independent sources
(*c*) By using information from sources independent of the entity
(*d*) By relying on management representations

59. What is the primary source of audit evidence to draw reasonable conclusions for the auditor's opinion?
(*a*) Risk assessment procedures only
(*b*) Further audit procedures only
(*c*) Both risk assessment procedures and further audit procedures
(*d*) Substantive procedures only

60. Which audit procedure involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset?
(*a*) Inquiry
(*b*) Observation
(*c*) External Confirmation
(*d*) Inspection

61. What is an example of using observation as an audit procedure?
(*a*) Observing inventory counting
(*b*) Observing a bank reconciliation
(*c*) Observing management's response to an inquiry
(*d*) Observing the preparation of financial statements

62. Which audit procedure involves obtaining a direct written response from a third party to confirm certain account balances or other relevant details?
(*a*) Recalculation
(*b*) Reperformance
(*c*) External Confirmation
(*d*) Analytical Procedures

63. What does recalculation as an audit procedure involve?
(*a*) Checking the mathematical accuracy of documents or records
(*b*) Independently executing procedures originally performed by the entity
(*c*) Evaluating financial information by studying plausible relationships
(*d*) Seeking information from knowledgeable persons within or outside the entity

64. Reperformance as an audit procedure involves:
(*a*) Evaluating financial information by studying plausible relationships
(*b*) Checking the mathematical accuracy of documents or records

(*c*) Independently executing procedures originally performed by the entity
(*d*) Seeking information from knowledgeable persons within or outside the entity

65. Which audit procedure involves evaluations of financial information made by a study of plausible relationships among both financial and non-financial data?
(*a*) Recalculation
(*b*) Analytical Procedures
(*c*) Inquiry
(*d*) Inspection

66. Inquiry as an audit procedure consists of:
(*a*) Seeking information from knowledgeable persons
(*b*) Observing physical verification of assets
(*c*) Checking the mathematical accuracy of documents
(*d*) Reperforming procedures originally performed by the entity

67. When is inquiry alone generally insufficient as an audit procedure?
(*a*) When seeking information from knowledgeable persons
(*b*) When evaluating financial information by studying relationships
(*c*) When obtaining written responses from third parties
(*d*) When confirming certain account balances with external parties

68. What does inspection of tangible assets primarily provide reliable audit evidence about?
(*a*) Ownership and valuation
(*b*) Existence, rights, and obligations
(*c*) Accuracy of financial statements
(*d*) Compliance with ethical requirements

69. Which audit procedure may involve obtaining audit evidence about the absence of certain conditions?
(*a*) Inquiry
(*b*) Recalculation
(*c*) External Confirmation
(*d*) Analytical Procedures

70. How might the nature and timing of audit procedures be affected by the availability of accounting data in electronic form?
(*a*) It doesn't affect audit procedures
(*b*) Only affects the timing, not the nature of audit procedures
(*c*) May require additional procedures due to electronic data
(*d*) Reduces the need for audit procedures

71. In what situation may the auditor find it necessary to request retention of information for review?
(*a*) When files are changed and backup files exist
(*b*) When electronic information is retrievable after a specified period
(*c*) When the entity discards source documents after scanning
(*d*) When information is available during regular audit procedures

72. How can an entity's data retention policies impact the timing of audit procedures?

(*a*) They don't impact the timing of audit procedures
(*b*) They may require audit procedures to be performed at specific times
(*c*) They speed up the timing of audit procedures
(*d*) They eliminate the need for audit procedures

73. What might be a challenge for the auditor when dealing with electronic information that is not retrievable after a specified period?

(*a*) The need for fewer audit procedures
(*b*) A reduction in data security concerns
(*c*) The possibility of incomplete audit trails
(*d*) Increased reliance on automated audit tools

74. In the context of electronic commerce, what might exist only in electronic form, affecting the nature of audit procedures?

(*a*) Backup files
(*b*) Purchase orders and invoices
(*c*) Image processing systems
(*d*) Data retention policies

75. Which of the following best describes risk assessment procedures in an audit engagement?

(*a*) Procedures to obtain evidence on specific transactions and account balances.
(*b*) Procedures to express an opinion on the financial statements.
(*c*) Procedures to understand the entity and its environment, assess risks, and identify potential misstatements.
(*d*) Procedures to confirm the accuracy of internal controls.

76. What is the primary purpose of tests of controls in an audit engagement?

(*a*) To detect material misstatements at the assertion level.
(*b*) To evaluate the operating effectiveness of controls.
(*c*) To express an opinion on the financial statements.
(*d*) To identify potential fraud in the entity.

77. Substantive procedures in an audit engagement are designed to:

(*a*) Evaluate the operating effectiveness of controls.
(*b*) Confirm the accuracy of internal controls.
(*c*) Detect material misstatements at the assertion level.
(*d*) Assess risks of material misstatement.

78. What does the term "tests of details" refer to in an audit engagement?

(*a*) Procedures to understand the entity and its environment.
(*b*) Procedures to evaluate the operating effectiveness of controls.
(*c*) Detailed examinations of specific transactions, account balances, and disclosures.
(*d*) Analyzing trends and relationships in financial data.

79. In an audit engagement, substantive analytical procedures involve:

(*a*) Confirming the accuracy of internal controls.
(*b*) Identifying potential fraud in the entity.

(*c*) Evaluating the operating effectiveness of controls.
(*d*) Analyzing relationships and trends in financial data.

80. In the context of auditing, what do assertions represent?
(*a*) Financial projections provided by the auditor.
(*b*) Representations by management embodied in the financial statements.
(*c*) External opinions on the financial statements.
(*d*) Legal obligations of the audit firm.

81. What is the primary focus of assertions in financial statements?
(*a*) Future financial projections.
(*b*) Management's explicit opinions.
(*c*) Representations made by management regarding recognition, measurement, presentation, and disclosure.
(*d*) Auditor's opinions on compliance.

82. Which category of assertions is concerned with the existence, completeness, and accuracy of transactions and events during the audit period?
(*a*) Assertions about classes of transactions and events.
(*b*) Assertions about account balances at the period end.
(*c*) Assertions about presentation and disclosure.
(*d*) Assertions about valuation and allocation.

83. Which assertion is related to the disclosure of events, transactions, and other matters in the financial statements?
(*a*) Existence.
(*b*) Completeness.
(*c*) Presentation and disclosure.
(*d*) Accuracy and valuation.

84. In certain entities, especially where the Government is a major stakeholder, what additional assertions might be made by management?
(*a*) Assertions about transactions and events.
(*b*) Assertions about account balances.
(*c*) Assertions about compliance with legislation or proper authority.
(*d*) Assertions about the fair presentation of financial information.

85. How flexible is the auditor in expressing assertions?
(*a*) Strictly follow the assertions as outlined in the auditing standards.
(*b*) Flexibility is limited, and assertions cannot be expressed differently.
(*c*) May express assertions differently as long as all aspects are covered.
(*d*) The Auditor has no discretion in expressing assertions.

86. What is the primary purpose of an audit trail in the context of financial transactions?
(*a*) To create a detailed record of user log-on attempts.
(*b*) To reduce system expenditure.

(*c*) To track and document the flow of transactions, verifying their source and integrity.
(*d*) To analyze large volumes of data for audit purposes.

87. How do audit trails contribute to internal controls and data security?
(*a*) By increasing system expenditure.
(*b*) By reducing the need for automated tools.
(*c*) By documenting evidence of events and operations, reducing fraud and unauthorized use.
(*d*) By limiting the analysis of data made available by audit trails.

88. What is one potential drawback associated with audit trails?
(*a*) They inspire confidence in auditors.
(*b*) They reduce the reliability of audit evidence.
(*c*) They involve costs in terms of system expenditure and time for data analysis.
(*d*) They have no impact on internal controls.

89. How can audit trails aid auditors in verifying controls devised by management?
(*a*) By eliminating the need for audit procedures.
(*b*) By increasing the reliance on manual records.
(*c*) By inspiring confidence in users.
(*d*) By providing evidence on whether controls were operating effectively.

90. What role do audit trails play in fixing responsibility and analyzing problem areas?
(*a*) They have no impact on fixing responsibility.
(*b*) They reduce the need for problem analysis.
(*c*) They can track user activities, fixing responsibility and aiding in problem analysis.
(*d*) They are only used for system operations and not for problem-solving.

91. In auditing, how may the use of information prepared by a management's expert impact audit procedures?
(*a*) It has no effect on audit procedures.
(*b*) It may influence the nature, timing, and extent of audit procedures based on various factors.
(*c*) It simplifies audit procedures.
(*d*) It eliminates the need for alternative sources of audit evidence.

92. What is a relevant consideration when determining the impact of a management's expert on audit procedures?
(*a*) The cost of the expert's services.
(*b*) Whether the expert is employed by the entity.
(*c*) The availability of alternative sources of audit evidence.
(*d*) The auditor's knowledge of the entity's financial statements.

93. How might the auditor's knowledge and experience of the management's expert's field of expertise influence audit procedures?

(*a*) It has no impact on audit procedures.

(*b*) It may affect the timing but not the nature of audit procedures.

(*c*) It may influence the nature and extent of audit procedures.

(*d*) It eliminates the need for controls over the management's expert's work.

94. What steps should the auditor take when using information produced by the entity in the audit process?

(*a*) Trust the information without further verification.

(*b*) Obtain audit evidence about the accuracy and completeness of the information.

(*c*) Assume that the information is sufficiently precise for audit purposes.

(*d*) Bypass evaluation as it is the entity's responsibility.

95. When is 100% examination most likely to be appropriate in audit procedures?

(*a*) When the population is large and homogenous.

(*b*) When there is a low risk of material misstatement.

(*c*) When the population constitutes a small number of large value items.

(*d*) When the audit evidence required is minimal.

96. In which situation is 100% examination more common for tests of details?

(*a*) When dealing with a large and diverse population.

(*b*) When there is a low risk of material misstatement.

(*c*) When the population constitutes a small number of large value items.

(*d*) When using audit sampling.

97. What is a factor relevant to the judgmental selection of specific items?

(*a*) The population size.

(*b*) The auditor's understanding of the entity.

(*c*) The use of audit sampling.

(*d*) The risk of material misstatement.

98. When may the auditor decide to select specific items within a population?

(*a*) When the population is small and homogenous.

(*b*) When the items are of low value.

(*c*) When there is no risk of material misstatement.

(*d*) When items are suspicious, unusual, or have a history of error.

99. What is a situation where 100% examination may be cost-effective?

(*a*) Large and diverse population.

(*b*) Low-risk transactions.

(*c*) Repetitive nature of a calculation in an information system.

(*d*) Minimal audit evidence required.

100. When might the auditor decide to examine items whose recorded values exceed a certain amount?

(*a*) To save time in the audit process.

(*b*) To verify a small proportion of the total amount.

(*c*) To obtain information about the nature of the entity.

(*d*) To verify a large proportion of the total amount.

101. What is a potential drawback of judgmental selection of specific items?

(*a*) Reduced audit efficiency.

(*b*) Increased sampling risk.

(*c*) Lower materiality threshold.

(*d*) Decreased audit scope.

102. Why might the auditor decide to perform 100% examination in the case of tests of controls?

(*a*) To save time in the audit process.

(*b*) Because it is more common for tests of controls.

(*c*) When the population is large and homogenous.

(*d*) When there is a low risk of material misstatement.

103. What is a characteristic that might make 100% examination appropriate in tests of controls?

(*a*) High sampling risk.

(*b*) Significant risk and other means insufficient.

(*c*) Diverse population.

(*d*) Minimal audit evidence required.

104. In which situation may the auditor decide to select specific items to verify a large proportion of the total amount?

(*a*) Small and homogenous population.

(*b*) Low-risk transactions.

(*c*) The repetitive nature of a calculation.

(*d*) The population constitutes a small number of large value items.

105. What is the primary purpose of audit sampling?

(*a*) To test the entire population.

(*b*) To draw conclusions about an entire population based on a sample.

(*c*) To examine each individual item in the population.

(*d*) To analyze the entire population exhaustively.

106. What action should the auditor take if audit evidence from one source is inconsistent with that obtained from another source?

(*a*) Ignore the inconsistency as it may not be material.

(*b*) Modify or add to audit procedures to resolve the inconsistency.

(*c*) Conclude the audit immediately.

(*d*) Rely only on the evidence obtained from the more reliable source.

107. According to SA 230, what specific documentation requirement exists if the auditor identifies information inconsistent with the final conclusion on a significant matter?

(*a*) No specific documentation is required.

(*b*) Record the inconsistency in the management letter.

(*c*) Provide an oral explanation to the audit committee.

(*d*) Document the inconsistency and resolution.

108. How is a management's expert defined in this context?

(*a*) An internal auditor designated by management.

(*b*) An individual or organization with expertise in accounting.

(*c*) Any member of the management team.

(*d*) An expert in a field other than accounting or auditing, used by the entity to assist in preparing financial statements.

109. When the auditor decides to rely on the work of a management's expert, what must the auditor evaluate regarding the expert's competence, capabilities, and objectivity?

(*a*) Whether the expert is employed by the entity.

(*b*) The expert's salary and compensation structure.

(*c*) The expert's membership in professional organizations.

(*d*) The competence, capabilities, and objectivity of the expert.

110. What is one of the auditor's responsibilities when information is prepared using the work of a management's expert?

(*a*) Ignore the work of the management's expert if it seems reliable.

(*b*) Conduct a detailed background check on the management's expert.

(*c*) Evaluate the appropriateness of the expert's work as audit evidence.

(*d*) Delegate the evaluation of the expert's work to the internal audit team.

111. Which standard is applicable to all audit evidence obtained during the audit to enable the auditor to draw reasonable conclusions for the opinion?

(*a*) SA 230 - Audit Documentation

(*b*) SA 500 - Audit Evidence

(*c*) SA 330 - The Auditor's Responses to Assessed Risks

(*d*) SA 600 - Using the Work of Another Auditor

112. What is the auditor's responsibility concerning the sufficiency and appropriateness of audit evidence?

(*a*) Delegate the judgment to the audit team.

(*b*) Draw conclusions based on personal intuition.

(*c*) Conclude whether sufficient appropriate audit evidence has been obtained.

(*d*) Only consider audit evidence related to financial statements.

113. What is the primary purpose of the internal audit function in an entity?

(*a*) Conducting financial audits

(*b*) Evaluating and improving the effectiveness of governance, risk management, and internal control processes

(*c*) Preparing financial statements

(*d*) Managing external audit engagements

114. Which area is NOT typically within the scope of the internal audit function's objectives?

(*a*) Governance processes

(*b*) Risk management

(*c*) Financial reporting preparation

(*d*) Internal control processes

115. What activities might the internal audit function perform related to risk management?

(*a*) Preparing financial statements

(*b*) Identifying and evaluating significant exposures to risk

(*c*) Conducting external audits

(*d*) Classifying financial information

116. In the context of internal control, what does the internal audit function provide assurance on?

(*a*) Accuracy of financial statements

(*b*) Efficiency of operating activities

(*c*) Design, implementation, and operating effectiveness of internal control

(*d*) Compliance with tax regulations

117. What might the internal audit function review concerning compliance activities?

(*a*) Financial planning

(*b*) Operational efficiency

(*c*) Compliance with laws, regulations, and internal requirements

(*d*) External audit procedures

118. What is one of the objectives of the internal audit function in relation to governance processes?

(*a*) Preparing financial forecasts

(*b*) Evaluating performance management

(*c*) Conducting external financial audits

(*d*) Classifying financial transactions

119. What aspect might the internal audit function review concerning operating activities?

(*a*) Accuracy of financial statements

(*b*) Compliance with laws and regulations

(*c*) Design of internal controls

(*d*) Operational efficiency

120. In what way may the external auditor use the internal audit function to enhance the audit process?

(*a*) As a replacement for the external auditor in performing the entire audit

(*b*) To obtain information relevant to assessments of risks of material misstatement

(*c*) Only when explicitly required by law

(*d*) Only when the internal audit function has the same objectives as the external auditor

121. Under what circumstances may the external auditor decide to use work performed by the internal audit function in partial substitution for direct audit evidence?

(*a*) Always, regardless of the nature of the work performed

(*b*) When prohibited by law or regulation

(*c*) When the internal audit function has different objectives

(*d*) After appropriate evaluation

122. What is the term used when the external auditor utilizes internal auditors to perform audit procedures under their direction, supervision, and review?

(*a*) Internal substitution
(*b*) Direct replacement
(*c*) Indirect assistance
(*d*) Direct assistance

123. What is the primary focus of SA 610 regarding the use of internal audit functions by the external auditor?

(*a*) To mandate the use of internal audit function in all audit engagements

(*b*) To guide the external auditor on modifying the nature, timing, and extent of audit procedures

(*c*) To define the external auditor's responsibilities when using the work of internal auditors

(*d*) To restrict the external auditor from using internal audit function

124. According to SA 610, who has the ultimate decision-making authority in establishing the overall audit strategy, including the use of the internal audit function?

(*a*) Management of the entity
(*b*) Internal audit function
(*c*) External auditor
(*d*) Audit committee

125. In an audit engagement, who has the sole responsibility for the audit opinion expressed?

(*a*) Internal audit function
(*b*) Audit committee
(*c*) External auditor
(*d*) Management of the entity

126. What is the primary objective of the external auditor when using the work of the internal audit function or internal auditors in an audit engagement?

(*a*) To replace the external auditor's responsibilities

(*b*) To fulfill regulatory requirements

(*c*) To determine the adequacy of the work for audit purposes

(*d*) To shift responsibility to the internal audit function

127. Why does SA 610 emphasize defining conditions for the use of the work of internal auditors?

(*a*) To promote overuse of internal auditors' work

(*b*) To establish a framework for external auditor's judgments

(*c*) To shift responsibility to internal auditors

(*d*) To eliminate the need for external audit

128. According to SA 610, who is required to be independent of the entity in an audit of financial statements?

(*a*) Internal auditors
(*b*) External auditors
(*c*) Management of the entity
(*d*) Audit committee

129. When using internal auditors to provide direct assistance, what is the external auditor required to do?

(*a*) Delegate all responsibilities to internal auditors
(*b*) Rely solely on the internal auditors' judgment
(*c*) Direct, supervise, and review their work appropriately
(*d*) Reduce the extent of audit procedures

130. What is a crucial factor in determining whether the work of the internal audit function can be used for the external audit?

(*a*) Independence from the entity
(*b*) Organizational status and relevant policies
(*c*) Internal audit's alignment with management
(*d*) Regulatory compliance

131. According to SA 610, what is a key consideration in assessing the internal audit function's suitability for the external audit?

(*a*) Size of the internal audit team
(*b*) Independence from management
(*c*) Level of coordination with external auditors
(*d*) Quality control and systematic approach

132. What does the external auditor need to evaluate concerning the internal audit function's objectivity?

(*a*) The internal audit team's opinion on financial statements
(*b*) The extent to which organizational status supports objectivity
(*c*) Compliance with external regulations
(*d*) Independence from the audit committee

133. What is the primary concern of evaluating objectivity in the internal audit function?

(*a*) The size of the internal audit team
(*b*) Independence from the audit committee
(*c*) Ability to perform tasks without bias
(*d*) Compliance with external regulations

134. In assessing objectivity, what is a crucial factor related to the organizational status of the internal audit function?

(*a*) Direct access to those charged with governance
(*b*) Reporting to management
(*c*) Providing operational duties to the function
(*d*) Being subject to constraints by management

135. What is an example of a potential constraint on the internal audit function that might impact objectivity?

(*a*) Direct access to those charged with governance
(*b*) Lack of managerial responsibilities
(*c*) Constraints on communicating findings to the external auditor
(*d*) Independence from the audit committee

136. Why is the oversight of employment decisions related to the internal audit function relevant in assessing objectivity?

(*a*) To ensure compliance with internal policies
(*b*) To determine the appropriateness of remuneration
(*c*) To maintain independence from management
(*d*) To enhance coordination with external auditors

137. What does the competence of the internal audit function refer to?

(*a*) Independence from external influence
(*b*) Adequate and appropriate resourcing
(*c*) Knowledge and skills required for tasks
(*d*) Established policies for hiring only

138. What factor is crucial in assessing competence concerning internal audit engagements?

(*a*) Technical training and proficiency
(*b*) Organizational status
(*c*) Objectivity of internal auditors
(*d*) Size of the entity

139. Why is the resourcing of the internal audit function relevant to competence assessment?

(*a*) To establish policies for hiring
(*b*) To support objectivity
(*c*) To ensure independence
(*d*) To enable diligent task performance

140. What does the continuum of objectivity and competence imply for the external auditor?

(*a*) Strong organizational support compensates for low competence
(*b*) High competence compensates for a lack of organizational support
(*c*) Both are equally important and interchangeable
(*d*) Neither objectivity nor competence is crucial

141. What cannot compensate for a lack of sufficient competence of the internal audit function?

(*a*) High-level policies
(*b*) Objectivity of internal auditors
(*c*) Adequate resourcing
(*d*) Organizational status

142. What distinguishes the activities of the internal audit function from other monitoring control activities?

(*a*) Independence
(*b*) Objectivity
(*c*) Systematic and disciplined approach
(*d*) Adequate resourcing

143. What factor is crucial in assessing whether the internal audit function applies a systematic approach?

(*a*) Existence of quality control policies
(*b*) Appropriateness of internal audit procedures
(*c*) Independence of the internal auditors
(*d*) Size and circumstances of the entity

144. Under what conditions should the external auditor avoid using the work of the internal audit function?

(*a*) When internal auditors lack objectivity
(*b*) When the function applies a systematic approach
(*c*) When organizational status supports objectivity
(*d*) When the function lacks competence

145. What is a key consideration for the external auditor when determining the use of internal audit work?

(*a*) The size of the internal audit function
(*b*) The relevance to the overall audit strategy and plan
(*c*) The number of internal auditors
(*d*) The geographical location of the internal audit function

146. Which of the following is an example of work performed by the internal audit function that can be used by the external auditor?

(*a*) Management representation letters
(*b*) External confirmations
(*c*) Observations of inventory counts
(*d*) Bank reconciliation

147. When considering the use of internal audit work, what is a primary factor for the external auditor to assess?

(*a*) The internal audit budget
(*b*) The internal auditors' independence
(*c*) The nature and scope of the internal audit work
(*d*) The financial expertise of the internal audit team

148. In what situation can the external auditor use the work of the internal audit function?

(*a*) When it involves subjective judgments
(*b*) When it aligns with the overall audit strategy
(*c*) When it duplicates the external audit procedures
(*d*) When it lacks relevance to financial reporting

149. Under what circumstances should the external auditor plan to use less of the work of the internal audit function?

(*a*) When the internal audit function has a high level of competence
(*b*) When the external auditor wants to reduce workload
(*c*) When there is more judgment involved in planning and performing audit procedures
(*d*) When the internal audit function lacks objectivity

150. What is a key consideration for the external auditor in planning to use less of the work of the internal audit function?

(*a*) The external auditor's workload preference
(*b*) The level of competence of the internal audit function

(*c*) The size of the internal audit team
(*d*) The assessed risk of material misstatement

151. When should the external auditor plan to perform more of the work directly instead of relying on the internal audit function?
(*a*) When the internal audit function has a low level of competence
(*b*) When the external auditor wants to minimize judgment
(*c*) When the organizational status of the internal audit function supports objectivity
(*d*) When the assessed risk of material misstatement is low

152. What is a key step the external auditor should take if planning to use the work of the internal audit function?
(*a*) Skip coordination with the internal audit function
(*b*) Perform audit procedures directly without discussion
(*c*) Discuss the planned use of its work with the function
(*d*) Rely solely on the reports of the internal audit function

153. What information should the external auditor obtain by reading the reports of the internal audit function?
(*a*) Detailed financial statements
(*b*) Nature and extent of audit procedures performed
(*c*) Employee payroll information
(*d*) External auditor's findings

154. What is an essential step for the external auditor when planning to use the work of the internal audit function?
(*a*) Rely solely on the internal audit function's reports
(*b*) Skip performing audit procedures on the internal audit function's work
(*c*) Perform audit procedures on the body of work to determine its adequacy
(*d*) Conduct independent audit without considering internal audit findings

155. Effective coordination between the external auditor and the internal audit function involves discussions on various aspects. Which of the following is NOT typically discussed during coordination?
(*a*) Materiality for the financial statements
(*b*) Nature of the entity's products
(*c*) Proposed methods of item selection and sample sizes
(*d*) Timing of the work to be performed

156. What does "direct assistance" refer to in the context of using internal auditors during an audit?
(*a*) Providing financial assistance to the internal audit function
(*b*) Supervising and directing internal audit processes
(*c*) Using internal auditors to perform audit procedures under external auditor's direction
(*d*) External auditors taking over internal audit responsibilities

157. Under what circumstances may the external auditor be prohibited from obtaining direct assistance from internal auditors?

(*a*) If internal auditors lack objectivity
(*b*) If direct assistance is not significant
(*c*) If prohibited by law or regulation
(*d*) If internal auditors lack competence

158. What is a condition under which the external auditor shall not use internal auditors to provide direct assistance?

(*a*) When internal auditors have significant relationships with management
(*b*) When internal auditors are too competent
(*c*) When there are significant threats to the objectivity of internal auditors
(*d*) When internal auditors are not involved in the audit process

159. In what situations should the external auditor not use internal auditors to provide direct assistance for audit procedures?

(*a*) Situations involving low risks of material misstatement
(*b*) Situations already reported to management by the internal audit function
(*c*) Routine audit tasks without significant judgment
(*d*) Decisions made by the internal auditor regarding audit strategy

160. What agreements should the external auditor obtain before using internal auditors to provide direct assistance?

(*a*) Agreement from external auditors to supervise internal auditors
(*b*) Agreement from internal auditors to report directly to management
(*c*) Agreement from internal auditors to follow external auditor's instructions and maintain confidentiality
(*d*) Agreement from management to intervene in internal auditors' work

161. What does the term "Internal Financial Controls (IFC)" encompass?

(*a*) Only financial reporting policies
(*b*) Financial reporting, operational effectiveness, and compliance
(*c*) Only prevention and detection of fraud
(*d*) Compliance with applicable laws and regulations

162. What is the primary focus of "Internal Control over financial reporting"?

(*a*) Safeguarding of assets
(*b*) Prevention and detection of fraud
(*c*) Compliance with laws and regulations
(*d*) Effectiveness of internal controls over financial reporting

163. How does "internal controls over financial reporting" relate to the auditor's opinion?

(*a*) It is the same as the opinion on financial statements
(*b*) It is an additional and distinct opinion from the one on financial statements
(*c*) It is not required by auditors
(*d*) It is only applicable to operational effectiveness

164. What distinguishes "internal financial control" from "internal controls over financial reporting"?
(*a*) Internal financial control is narrower in scope
(*b*) Internal controls over financial reporting include prevention and detection of fraud
(*c*) Internal financial control is broader, covering financial reporting, compliance, and more
(*d*) Internal controls over financial reporting focus on efficiency of operations

165. Which term is considered the wider concept between "Internal Financial Controls" and "Internal Controls over financial reporting"?
(*a*) Internal Controls over financial reporting
(*b*) Both terms have the same scope
(*c*) Internal Financial Controls
(*d*) None of the above

166. What is the primary criticism of the traditional approach to auditing mentioned in the passage?
(*a*) It lacks emphasis on routine checking
(*b*) It is economically wasteful
(*c*) It involves too much sampling
(*d*) It neglects the role of internal controls

167. What is the purpose of internal controls in the management of organizations according to the passage?
(*a*) To complicate audit procedures
(*b*) To prevent detection and correction of frauds and errors
(*c*) To make routine checking more necessary
(*d*) To increase the cost of audit procedures

168. What distinguishes the shift in the audit approach mentioned in the passage?
(*a*) More emphasis on routine checking
(*b*) More attention towards questions of principles and controls
(*c*) Increased reliance on personal judgment
(*d*) Decreased importance of internal controls

169. According to the passage, what is the basis for determining the extent of checking in audit procedures?
(*a*) Regulatory requirements
(*b*) Personal preference of the auditor
(*c*) Statutory guidelines
(*d*) Auditor's judgment

170. What is the objective of audit sampling, as defined by SA 530?
(*a*) To examine 100% of items within a population
(*b*) To eliminate sampling risk
(*c*) To draw conclusions about the population based on a sample
(*d*) To ensure completeness of the population

171. When is SA 530 applicable?
(*a*) When auditors use non-statistical sampling only
(*b*) When auditors use statistical sampling only

(*c*) When auditors decide to use audit sampling in performing procedures
(*d*) When auditors conduct routine checking

172. What is the population in the context of audit sampling?
(*a*) Sample units
(*b*) Items selected for testing
(*c*) Entire set of data from which a sample is drawn
(*d*) Statistical parameters

173. What are the characteristics of a population, according to the passage?
(*a*) Inappropriateness, Completeness, and Unreliability
(*b*) Appropriateness, Completeness, and Reliability
(*c*) Completeness, Unreliability, and Unimportance
(*d*) Appropriateness, Completeness, and Unimportance

174. What is the purpose of audit sampling, according to the passage?
(*a*) To eliminate all errors in the population
(*b*) To measure sampling risk
(*c*) To provide a reasonable basis for the auditor to draw conclusions about the population
(*d*) To ensure 100% accuracy in the audit opinion

175. What distinguishes statistical sampling from non-statistical sampling?
(*a*) Complexity of operation
(*b*) Personal bias in selection
(*c*) Dependence on internal controls
(*d*) Reliability of audit objectives

176. What is a key consideration when designing an audit sample?
(*a*) Achieving a high level of sampling risk
(*b*) Reducing the characteristics of the population
(*c*) Ensuring that each sampling unit has a chance of selection
(*d*) Ignoring the purpose of the audit procedures

177. Why is it important for the auditor to have a clear understanding of what constitutes a deviation or misstatement?
(*a*) To increase sampling risk
(*b*) To include irrelevant conditions in the evaluation
(*c*) To assess the risk of fraud
(*d*) To use a smaller sample size

178. What is the auditor's consideration when performing audit sampling, according to SA 500?
(*a*) Ensuring 100% examination of the population
(*b*) Obtaining evidence that the audit sample is incomplete
(*c*) Reducing the expected misstatement in the population
(*d*) Assessing the characteristics of the population

179. When considering the purpose of an audit procedure, why might an auditor not treat a particular condition as a misstatement?

(*a*) It has a significant effect on other areas of the audit
(*b*) It affects the allowance for doubtful accounts
(*c*) It is irrelevant to the purpose of the audit procedure
(*d*) It increases the risk of fraud

180. How does the auditor assess the expected rate of deviation in tests of controls?

(*a*) By ignoring the relevant controls
(*b*) By examining the entire population
(*c*) Based on the examination of a small number of items
(*d*) By reducing the sample size

181. What is the auditor's assessment based on when determining the expected misstatement in the population for tests of details?

(*a*) 100% examination
(*b*) A high sampling risk
(*c*) The expected rate of deviation
(*d*) The expected misstatement in the population

182. In what situation might a 100% examination or a large sample size be appropriate in tests of details?

(*a*) When the expected misstatement is high
(*b*) When the expected rate of deviation is low
(*c*) When sampling risk is minimal
(*d*) When the population is incomplete

183. What is the overall goal of the auditor when selecting items for an audit sample?

(*a*) To increase the expected misstatement
(*b*) To achieve a high level of sampling risk
(*c*) To ensure 100% accuracy in the audit opinion
(*d*) To ensure that each sampling unit has a chance of selection

184. Why might it not be appropriate to consider a certain condition a misstatement in evaluating sample results?

(*a*) It increases sampling risk
(*b*) It affects the risk of fraud
(*c*) It is irrelevant to the purpose of the audit procedure
(*d*) It has a significant effect on other areas of the audit

185. What does the auditor's assessment of the expected rate of deviation assist in designing?

(*a*) A small sample size
(*b*) An incomplete population
(*c*) An assessment of the risk of fraud
(*d*) The audit sample and determining sample size

186. What is the objective of stratification in audit sampling?

(*a*) To increase the variability of items within each stratum

(*b*) To reduce the audit efficiency

(*c*) To increase sampling risk

(*d*) To reduce the variability of items within each stratum and allow for a smaller sample size

187. How is the population often stratified when performing tests of details?

(*a*) By alphabetical order

(*b*) By the age of the items

(*c*) By the size of the items

(*d*) By the number of items

188. What is one benefit of value-weighted selection in audit sampling?

(*a*) It directs audit effort to smaller value items

(*b*) It increases the sample size

(*c*) It reduces the variability of items

(*d*) It directs audit effort to larger value items and results in smaller sample sizes

189. How does stratification impact the sample results in audit sampling?

(*a*) The results are projected only to the stratum of the items selected

(*b*) The results are projected to the entire population without considering strata

(*c*) The variability of items is increased within each stratum

(*d*) The sample size remains constant across all strata

190. When might a population be stratified according to a particular characteristic?

(*a*) When selecting items randomly

(*b*) When testing for alphabetical order

(*c*) When the characteristic indicates a higher risk of misstatement

(*d*) When the population size is small

191. What does value-weighted selection focus on when defining the sampling unit?

(*a*) Random selection of items

(*b*) Individual monetary units within the population

(*c*) Items with alphabetical order

(*d*) Smaller value items

192. In value-weighted selection, why is audit effort directed to larger value items?

(*a*) Larger value items have a greater chance of selection

(*b*) Larger value items are less significant

(*c*) Smaller value items have a greater chance of selection

(*d*) The sample size is larger for larger value items

193. How does an increase in the tolerable rate of deviation affect the sample size in audit sampling?

(*a*) It increases the sample size

(*b*) It decreases the sample size

(*c*) It has no effect on the sample size

(*d*) It depends on other factors

194. What is the impact of an increase in the expected rate of deviation on the sample size in audit sampling?

(*a*) It increases the sample size
(*b*) It decreases the sample size
(*c*) It has no effect on the sample size
(*d*) It depends on other factors

195. How does an increase in the auditor's desired level of assurance affect the sample size in audit sampling?

(*a*) It increases the sample size
(*b*) It decreases the sample size
(*c*) It has no effect on the sample size
(*d*) It depends on other factors

196. What role does the actual size of the population play in determining the sample size in audit sampling?

(*a*) It significantly increases the sample size
(*b*) It significantly decreases the sample size
(*c*) It has no significant effect on the sample size
(*d*) It depends on other factors

197. When there is an increase in the extent to which the auditor's risk assessment takes into account relevant controls, how does it impact the sample size in audit sampling?

(*a*) It increases the sample size
(*b*) It decreases the sample size
(*c*) It has no effect on the sample size
(*d*) It depends on other factors

198. Which sampling method ensures that each item in the population has an equal chance of being selected, and is suitable for a homogeneous population with a similar range?

(*a*) Stratified Sampling
(*b*) Haphazard Sampling
(*c*) Block Sampling
(*d*) Simple Random Sampling

199. What is the primary characteristic of Stratified Sampling in audit sampling?

(*a*) It involves dividing the population into separate groups, and a sample is taken from each group.
(*b*) It selects items without following a structured technique.
(*c*) It selects contiguous items from within the population.
(*d*) It involves selecting a block of items from the population.

200. Which sampling method involves value-weighted selection, where sample size, selection, and evaluation result in a conclusion in monetary amounts?

(*a*) Haphazard Sampling
(*b*) Block Sampling
(*c*) Monetary Unit Sampling
(*d*) Simple Random Sampling

201. What is the key characteristic of Haphazard Sampling in audit sampling?

(*a*) It involves dividing the population into separate groups, and a sample is taken from each group.
(*b*) It selects items without following a structured technique, avoiding conscious bias or predictability.

(*c*) It involves selecting a block of items from the population.
(*d*) It ensures that each item in the population has an equal chance of being selected.

202. Why is Block Sampling rarely an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample?
(*a*) It involves dividing the population into separate groups, and a sample is taken from each group.
(*b*) It selects items without following a structured technique.
(*c*) It involves selecting a block of items from the population.
(*d*) Most populations are structured such that items in a sequence can be expected to have similar characteristics.

203. In the case of tests of controls, what should the auditor treat a selected item as if the designed audit procedures cannot be applied or suitable alternative procedures are not available?
(*a*) Deviation
(*b*) Exception
(*c*) Irregularity
(*d*) Discrepancy

204. If a cancelled cheque is selected while testing for evidence of payment authorization and the auditor is satisfied it does not constitute a deviation, what should the auditor do?
(*a*) Ignore the selected cheque.
(*b*) Examine the cancelled cheque.
(*c*) Perform the procedure on a replacement cheque.
(*d*) Exclude the cheque from the audit scope.

205. What is an example of a suitable alternative procedure according to SA 505?
(*a*) Ignoring the selected item.
(*b*) Replacing the item with a similar one.
(*c*) Seeking confirmation from the debtor.
(*d*) Reviewing subsequent cash receipts.

206. When all transactions of computerized sales are being checked, and a sample of manual billing gets selected, what is the appropriate action for the auditor?
(*a*) Ignore the manual billing.
(*b*) Replace the manual billing with a computerized sale.
(*c*) Skip the audit procedure for that item.
(*d*) Replace the item after adequately checking its correctness.

207. If documentation related to a selected item is lost, what action should the auditor take according to SA 505?
(*a*) Assume the item is not material.
(*b*) Seek confirmation from the debtor.
(*c*) Skip the audit procedure for that item.
(*d*) Apply alternative audit procedures.

208. In the case of tests of details, what should the auditor treat a selected item as if the designed audit procedures cannot be applied or suitable alternative procedures are not available?
(*a*) Error
(*b*) Deviation
(*c*) Misstatement
(*d*) Irregularity

209. When the auditor observes that many deviations or misstatements have a common feature, what action may the auditor take according to auditing standards?

(*a*) Ignore the common feature.
(*b*) Extend audit procedures to items with the common feature.
(*c*) Exclude items with the common feature from the audit scope.
(*d*) Document the common feature without further investigation.

210. What may deviations or misstatements with a common feature indicate, according to auditing standards?

(*a*) Routine errors only.
(*b*) Intentional actions and the possibility of fraud.
(*c*) Inadequate audit planning.
(*d*) Acceptable variations in financial statements.

211. In the case of deviations or misstatements, what action is required of the auditor according to auditing standards?

(*a*) Ignore them if they are not material.
(*b*) Investigate the nature and causes.
(*c*) Assume they are routine errors.
(*d*) Rely solely on the client's explanation.

212. In extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, what is the auditor required to obtain?

(*a*) Approval from management.
(*b*) A confirmation from the external auditor.
(*c*) High certainty that it is representative of the population.
(*d*) A second sample for validation.

213. How should the auditor obtain a high degree of certainty that a misstatement or deviation discovered in a sample is not representative of the population?

(*a*) Accept the misstatement or deviation as an anomaly.
(*b*) Rely on the client's explanation.
(*c*) Perform additional audit procedures.
(*d*) Exclude the item from the audit report.

214. What is the auditor required to do regarding the projection of misstatements for the population according to auditing standards?

(*a*) Project misstatements only for material items.
(*b*) Project misstatements to determine the exact amount to be recorded.
(*c*) Project misstatements broadly for an overall view.
(*d*) Exclude projection for anomalous misstatements.

215. When a misstatement is established as an anomaly, what action may the auditor take when projecting misstatements to the population?

(*a*) Exclude the entire population from the projection.
(*b*) Include the misstatement in the projection without adjustment.

(*c*) Exclude the misstatement from the projection.
(*d*) Adjust the projection based on the nature of the misstatement.

216. For which type of audit procedures is the explicit projection of deviations to the population unnecessary according to auditing standards?
(*a*) Tests of controls.
(*b*) Analytical procedures.
(*c*) Substantive procedures.
(*d*) Compliance testing.

217. What is the purpose of stratification in audit sampling?
(*a*) To increase the variability within each stratum.
(*b*) To decrease the sample size within each stratum.
(*c*) To reduce the variability of items within each stratum.
(*d*) To increase the sample size within each stratum.

218. How does the auditor use the concept of "tolerable misstatement" in audit sampling?
(*a*) It defines the acceptable level of deviation in internal control procedures.
(*b*) It sets the monetary amount for which assurance is sought regarding the absence of actual misstatement in the population.
(*c*) It establishes the expected rate of deviation in the population.
(*d*) It determines the sample size for tests of controls.

219. What does the "tolerable rate of deviation" represent in audit sampling?
(*a*) The maximum rate of deviation that the auditor is willing to accept in the sample.
(*b*) The rate of deviation that is inherent in the population.
(*c*) The rate of deviation that is acceptable in the entire audit.
(*d*) The minimum rate of deviation that the auditor expects in the sample.

220. What is the objective of the auditor regarding specific considerations for inventory, litigation, and segment information under SA 501?
(*a*) To express an opinion on the entity's financial statements.
(*b*) To obtain assurance on the effectiveness of internal controls.
(*c*) To identify potential fraud in the financial statements.
(*d*) To obtain sufficient appropriate audit evidence related to specific aspects.

221. When inventory is material to the financial statements, what does the auditor need to do regarding attendance at physical inventory counting?
(*a*) It is optional for the auditor to attend physical inventory counting.
(*b*) The auditor should perform audit procedures over the entity's final inventory records.
(*c*) The auditor must attend physical inventory counting, unless impracticable.
(*d*) The auditor should rely solely on the entity's perpetual inventory system.

222. What is a relevant consideration for planning attendance at physical inventory counting?
(*a*) The convenience of the auditor.
(*b*) The nature of inventory.
(*c*) The size of the audit team.
(*d*) The auditor's personal preferences.

223. In case attendance at physical inventory counting is impracticable, what alternative audit procedures should the auditor perform?

(*a*) No alternative procedures are required.

(*b*) Rely on the entity's management representation.

(*c*) Modify the opinion in the auditor's report.

(*d*) Perform inspection of documentation of subsequent sales.

224. When inventory is under the custody and control of a third party, what should the auditor do to obtain sufficient appropriate audit evidence?

(*a*) Rely solely on the third party's confirmation.

(*b*) Perform inspection of documentation only.

(*c*) Ignore the third party's role and focus on internal controls.

(*d*) Request confirmation from the third party or perform inspection.

225. What is a relevant audit procedure for identifying litigation and claims involving the entity that may give rise to a risk of material misstatement?

(*a*) Inspection of inventory records.

(*b*) Inquiry of management and, where applicable, others within the entity.

(*c*) Reviewing bank statements.

(*d*) Observing physical inventory counting.

226. In addition to the procedures mentioned, what does SA 540 provide guidance on regarding litigation and claims involving the entity?

(*a*) Requirements for internal control assessment.

(*b*) Guidelines for financial statement presentation.

(*c*) Consideration of litigation and claims requiring accounting estimates or related disclosures.

(*d*) Procedures for fraud detection.

227. When the auditor assesses a risk of material misstatement related to litigation or claims, what is the auditor required to do regarding communication with the entity's external legal counsel?

(*a*) The auditor is not required to communicate with external legal counsel.

(*b*) Seek indirect communication through management.

(*c*) Seek direct communication through a letter of inquiry.

(*d*) Rely solely on internal audit reports.

228. If law or regulation prohibits the entity's external legal counsel from directly communicating with the auditor, what should the auditor do?

(*a*) Cease any further audit procedures related to litigation.

(*b*) Seek legal advice before proceeding with communication.

(*c*) Modify the opinion in the auditor's report.

(*d*) Perform alternative audit procedures.

229. In what circumstances might the auditor judge it necessary to meet with the entity's external legal counsel regarding litigation or claims?

(*a*) For routine matters with minimal financial implications.

(*b*) If the matter is not complex.

(*c*) When there is disagreement between management and legal counsel.

(*d*) Only when required by regulatory authorities.

230. What does segment information refer to in the context of an enterprise's financial reporting?

(*a*) Information about the company's shareholders.

(*b*) Information about the enterprise's internal structure and hierarchy.

(*c*) Information about different types of products and services and operations in different geographical areas.

(*d*) Information about the enterprise's employees.

231. Regarding segment information, what is the auditor's responsibility in relation to the financial statements?

(*a*) The auditor is solely responsible for preparing segment information.

(*b*) The auditor must express a separate opinion on the segment information.

(*c*) The auditor's responsibility is only for stand-alone segment information.

(*d*) The auditor's responsibility is in relation to the financial statements taken as a whole.

232. What is one of the auditor's tasks concerning segment information, as per SA 501?

(*a*) Developing segment reporting standards.

(*b*) Evaluating the profitability of each segment.

(*c*) Obtaining an understanding of the methods used by management in determining segment information.

(*d*) Preparing segment information summaries.

233. In relation to segment information, what does the auditor evaluate concerning the methods used by management?

(*a*) The profitability of each segment.

(*b*) Whether the methods result in disclosure in accordance with the applicable financial reporting framework.

(*c*) The total revenue of the enterprise.

(*d*) The market share of each segment.

234. Is the auditor required to express an opinion on the segment information presented on a stand-alone basis?

(*a*) Yes, it is a mandatory requirement.

(*b*) No, the auditor's responsibility is in relation to the financial statements taken as a whole.

(*c*) Only if requested by the entity's management.

(*d*) Only if there are significant variations in segment information.

235. When obtaining an understanding of the methods used by management in determining segment information, what is a relevant matter to consider?

(*a*) Operating profits as a percentage of sales.
(*b*) Consistency with prior periods and disclosure adequacy.
(*c*) Comparison with industry benchmarks.
(*d*) Employee satisfaction.

236. In the context of determining segment information, what is a matter relevant for evaluation according to SA 501?

(*a*) Number of employees in each segment.
(*b*) Allocation of assets and costs among segments.
(*c*) Total revenue of the enterprise.
(*d*) The popularity of the products in different segments.

237. What is considered a relevant matter in evaluating the methods used for segment information disclosure?

(*a*) Adherence to industry-specific regulations.
(*b*) Consistency with prior periods.
(*c*) The geographic location of the enterprise.
(*d*) Employee turnover rate.

238. According to SA 500, which statement is true regarding the reliability of audit evidence?

(*a*) Audit evidence obtained indirectly is always more reliable than evidence obtained directly.
(*b*) Audit evidence is equally reliable, irrespective of its source.
(*c*) Audit evidence obtained from independent sources outside the entity is generally more reliable.
(*d*) Documentary form of audit evidence is always less reliable.

239. What is the primary focus of SA 505 "External Confirmations"?

(*a*) Guidelines for internal control assessment.
(*b*) Use of statistical sampling techniques.
(*c*) Designing and performing external confirmation procedures.
(*d*) Treatment of related party transactions.

240. How does SA 505 define external confirmation?

(*a*) Any evidence received directly from the entity.
(*b*) Direct written response from a third party to the auditor.
(*c*) Evidence generated internally by the entity.
(*d*) Indirect response from a related party.

241. What is a positive confirmation request?

(*a*) A request for the auditor to confirm information directly.
(*b*) A request for the entity to confirm information.

(*c*) A request for the confirming party to respond only if they disagree.
(*d*) A request for a non-response.

242. What is a negative confirmation request?
(*a*) A request for the auditor to confirm information directly.
(*b*) A request for the entity to confirm information.
(*c*) A request for the confirming party to respond only if they disagree.
(*d*) A request for a non-response.

243. How is "non-response" defined in the context of confirmation requests?
(*a*) An acknowledgment of the confirmation request.
(*b*) A failure to respond, or fully respond, to a positive confirmation request.
(*c*) A response indicating agreement with the information.
(*d*) A response indicating a difference between information requested and provided.

244. What does the term "exception" refer to in the context of confirmation responses?
(*a*) A response that indicates a difference between requested information and that in the entity's records.
(*b*) A positive confirmation response.
(*c*) Any information provided by the confirming party.
(*d*) A non-response to a negative confirmation request.

245. What is the auditor's responsibility regarding external confirmation requests?
(*a*) Determine whether the confirming party agrees or disagrees.
(*b*) Select confirming parties and request information.
(*c*) Evaluate confirmation responses.
(*d*) Analyze confirmation risk factors.

246. What is a key consideration when determining the information to be confirmed or requested?
(*a*) Management's encouragement to confirm parties.
(*b*) The assertion being addressed.
(*c*) The method of communication.
(*d*) The auditor's authorization.

247. Why might a positive confirmation request be considered more reliable?
(*a*) It provides less information to the confirming party.
(*b*) It is sent electronically.
(*c*) It allows confirming parties to disagree without providing information.
(*d*) It asks the confirming party to reply in all cases.

248. How can the auditor reduce the risk associated with positive confirmation requests?
(*a*) Use blank confirmation requests.
(*b*) Request information only from management.
(*c*) Send fewer confirmation requests.
(*d*) State the amount on the confirmation request.

249. What does "properly addressed requests" involve?

(*a*) Ensuring that the auditor's address is correct.
(*b*) Checking the validity of addresses on confirmation requests before sending.
(*c*) Verifying management's authorization.
(*d*) Confirming parties' agreement with the information.

250. When might the auditor send a follow-up confirmation request?

(*a*) Immediately after the initial request.
(*b*) Only if the confirming party disagrees.
(*c*) When a reply to the previous request is not received within a reasonable time.
(*d*) If the auditor wants more information.

251. What should the auditor do if management refuses to allow the auditor to send a confirmation request?

(*a*) Proceed with other audit procedures without inquiry.
(*b*) Document the refusal and ignore its implications.
(*c*) Inquire as to management's reasons, evaluate implications, and perform alternative procedures.
(*d*) Conclude the audit without further action.

252. If the auditor determines that management's refusal is unreasonable, what action is required?

(*a*) Continue with the audit without any modifications.
(*b*) Communicate with those charged with governance and determine implications for the audit and opinion.
(*c*) Ignore the refusal and proceed with confirmation requests.
(*d*) Request additional audit evidence from management.

253. What is a common reason for management to refuse the auditor to send a confirmation request?

(*a*) Inability to locate confirming parties.
(*b*) Ongoing legal dispute or negotiation with the confirming party.
(*c*) Auditor's lack of authorization.
(*d*) Routine company policy.

254. Why is the auditor required to seek audit evidence about the validity and reasonableness of management's refusal reasons?

(*a*) To accuse management of fraud.
(*b*) To revise the financial statements.
(*c*) Due to the risk of management denying access to evidence revealing fraud or error.
(*d*) As a routine procedure in every audit.

255. In case of a refusal, what could be an example of an alternative audit procedure for accounts payable balances?

(*a*) Sending confirmation requests to suppliers.
(*b*) Examining specific subsequent cash receipts.

(*c*) Reviewing purchase orders.
(*d*) Examining subsequent cash disbursements or correspondence from third parties.

256. In what circumstances can the auditor use negative confirmation requests as the sole substantive audit procedure?
(*a*) The risk of material misstatement is high.
(*b*) The population comprises a small number of large, heterogeneous items.
(*c*) The auditor has not assessed the operating effectiveness of controls.
(*d*) The risk of material misstatement is assessed as low, and specific conditions are met.

257. When is a failure to receive a response to a negative confirmation request less persuasive as audit evidence?
(*a*) When the confirming party agrees with the information in the request.
(*b*) When the auditor has assessed a high risk of material misstatement.
(*c*) When the information in the request is unfavorable to the confirming party.
(*d*) When the confirming party is unaware of the audit.

258. What is a condition that would allow the auditor to use negative confirmation requests as the sole substantive audit procedure?
(*a*) High expected exception rate.
(*b*) Small and heterogeneous population.
(*c*) Lack of controls in the entity.
(*d*) Presence of circumstances causing recipients to disregard the requests.

259. What is the auditor's response category when the confirming party agrees with the information in the confirmation request without exception?
(*a*) Unreliable response
(*b*) Exceptional response
(*c*) Non-response
(*d*) Reliable response

260. How does the auditor categorize a response that is deemed unreliable during external confirmation procedures?
(*a*) Exceptional response
(*b*) Unreliable response
(*c*) Non-response
(*d*) Reliable response

261. What does the auditor consider when evaluating the results of external confirmation procedures?
(*a*) Only the response categories
(*b*) Other audit procedures performed
(*c*) Only the non-response category
(*d*) Results of internal control assessments

262. What does a non-response during external confirmation procedures indicate?
(*a*) Agreement with the information in the request
(*b*) Unreliable response
(*c*) Disagreement with the information in the request
(*d*) Lack of response from the confirming party

263. What is the definition of an "initial audit engagement"?

(*a*) An engagement where the financial statements for the prior period were audited by a predecessor auditor.

(*b*) An engagement where the financial statements for the prior period were audited by the current auditor.

(*c*) An engagement where the financial statements for the prior period were not audited.

(*d*) An engagement where the financial statements for the prior period were audited by the same auditor.

264. What do "opening balances" represent in the context of an audit?

(*a*) Balances that exist at the end of the period.

(*b*) Balances that reflect the effects of transactions and events of the current period.

(*c*) Balances that exist at the beginning of the period.

(*d*) Balances that are adjusted during the audit.

265. Who is a "predecessor auditor"?

(*a*) The current auditor from a different audit firm.

(*b*) The current auditor from the same audit firm.

(*c*) The auditor who audits the financial statements in the current period.

(*d*) The auditor from a different audit firm who audited the financial statements in the prior period.

266. What is one of the auditor's responsibilities in obtaining sufficient appropriate audit evidence regarding opening balances?

(*a*) Determining whether the opening balances reflect the application of inappropriate accounting policies.

(*b*) Ensuring that adjustments to opening balances are not disclosed as prior period items.

(*c*) Determining whether the prior period's closing balances have been brought forward correctly to the current period.

(*d*) Focusing on adjustments disclosed as prior period items in the current year's Statement of Profit and Loss.

267. What does the auditor need to evaluate concerning the opening balances?

(*a*) Whether audit procedures performed in the prior period provide evidence relevant to the opening balances.

(*b*) Whether the opening balances reflect inappropriate accounting policies.

(*c*) Whether adjustments disclosed as prior period items have been appropriately accounted for.

(*d*) Whether the prior period's closing balances are consistent with the current year's Statement of Profit and Loss.

268. In the context of opening balances, what does the auditor do if misstatements are found that could materially affect the current period's financial statements?

(*a*) Conclude the audit without further investigation.

(*b*) Communicate the misstatements with appropriate management and governance.

(*c*) Ignore the misstatements if they are immaterial.
(*d*) Adjust the opening balances in the current year's financial statements.

269. Which of the following is a specific action the auditor may take regarding prior year financial statements during the audit of opening balances?
(*a*) Ignoring the prior year financial statements as they are not relevant.
(*b*) Perusing copies of the audited financial statements from the prior year.
(*c*) Relying solely on the current year's Statement of Profit and Loss.
(*d*) Requesting a complete restatement of the prior year financial statements.

270. What is a factor that influences the nature and extent of audit procedures related to opening balances?
(*a*) The location of the entity's offices.
(*b*) The color scheme used in the financial statements.
(*c*) The accounting policies followed by the entity.
(*d*) The popularity of the entity's products.

271. What aspect of the current period's financial statements affects the nature and extent of audit procedures for opening balances?
(*a*) The entity's budget for the current year.
(*b*) The significance of the opening balances relative to the current period's financial statements.
(*c*) The number of shareholders in the entity.
(*d*) The entity's market share.

272. What consideration is important in determining the extent of audit procedures for opening balances?
(*a*) The entity's current financial performance.
(*b*) Whether the predecessor auditor's opinion was modified.
(*c*) The popularity of the entity's products.
(*d*) The geographical distribution of the entity's customers.

273. In the context of opening balances, what action can the auditor take if the prior period's financial statements were audited by a predecessor auditor?
(*a*) Ignore the prior period's financial statements.
(*b*) Obtain copies of the audited financial statements and relevant documents.
(*c*) Assume all opening balances are correct.
(*d*) Contact the predecessor auditor for predictions about the current period.

274. In the case of inventories, what additional audit procedures may be necessary to obtain sufficient appropriate audit evidence about opening balances?
(*a*) Rely solely on the current period's audit procedures for closing inventory.
(*b*) Observe a current physical inventory count and reconcile it to opening inventory quantities.

(*c*) Assume that the opening inventory is the same as the closing inventory of the prior period.
(*d*) Only perform audit procedures on the valuation of the opening inventory items.

275. How might the auditor obtain audit evidence about opening balances for non-current assets and liabilities such as property, plant and equipment?
(*a*) Rely on the closing balances without further audit procedures.
(*b*) Confirm with third parties.
(*c*) Assume opening balances for non-current assets and liabilities remain unchanged.
(*d*) Ignore non-current assets and liabilities in the opening balances.

276. What action should the auditor take if the current period's accounting policies are not consistently applied in relation to opening balances, or if a change in accounting policies is not properly accounted for or adequately presented and disclosed?
(*a*) Ignore the inconsistency and continue the audit.
(*b*) Express an unmodified opinion.
(*c*) Express a qualified or adverse opinion, as appropriate.
(*d*) Request management to modify the financial reporting framework.

277. What should the auditor do if they are unable to obtain sufficient appropriate audit evidence regarding the opening balances?
(*a*) Express an unmodified opinion.
(*b*) Request management to provide additional evidence.
(*c*) Express a qualified opinion or a disclaimer of opinion, as appropriate.
(*d*) Ignore the issue and proceed with the audit.

278. What action should the auditor take if the opening balances contain a misstatement that materially affects the current period's financial statements and is not properly accounted for or adequately presented and disclosed?
(*a*) Express an unmodified opinion.
(*b*) Request management to rectify the misstatement.
(*c*) Express a qualified or adverse opinion, as appropriate.
(*d*) Ignore the misstatement and proceed with the audit.

279. How does the Standard on Auditing (SA) 550 define a related party in the absence of specific requirements in the financial reporting framework?
(*a*) Any entity mentioned in the financial statements.
(*b*) Any entity with which the reporting entity has contractual agreements.
(*c*) Only entities that share common controlling ownership.
(*d*) A person or entity that has control or significant influence over the reporting entity.

280. Which of the following is NOT considered a related party, even if there is common control?
(*a*) Entities with common controlling ownership.
(*b*) Entities owned by close family members.

(*c*) Entities under common control by a state (national, regional, or local government).
(*d*) Entities engaged in significant transactions with one another.

281. What is the key difference between control and significant influence according to financial reporting frameworks?
(*a*) Control involves power over financial and operating policies, while significant influence involves ownership of a significant percentage of shares.
(*b*) Control allows participation in financial and operating policy decisions, while significant influence involves the ability to govern an entity's activities.
(*c*) Control implies ownership of a majority of shares, while significant influence requires ownership of a minority interest.
(*d*) Control provides benefits from entity activities, while significant influence is limited to financial policy decisions.

282. What relationship may indicate the presence of control or significant influence?
(*a*) Having a significant business relationship with a close family member.
(*b*) Holding direct or indirect equity or other financial interests in the entity.
(*c*) Being a close family member of someone with no financial interests in the entity.
(*d*) Being part of those charged with governance or key management.

283. Considering the ability of related parties to exert dominant influence over the entity or its management is relevant when:
(*a*) Evaluating the effectiveness of internal controls.
(*b*) Determining appropriate audit procedures.
(*c*) Identifying and assessing risks of material misstatement due to fraud.
(*d*) Assessing the accuracy of financial statements.

284. Regarding related party transactions and relationships, the auditor is required to inquire about:
(*a*) The entity's related parties and any changes from the prior period.
(*b*) The nature of relationships between the entity and related parties.
(*c*) Whether the entity engaged in transactions with related parties during the period and details of those transactions.
(*d*) All of the above.

285. How might the control environment in smaller entities differ from larger entities in terms of governance and control activities?
(*a*) Smaller entities always have a more formal control environment.
(*b*) Governance in smaller entities is similar to larger entities.
(*c*) Control activities in smaller entities are typically more formalized.
(*d*) The role of governance in smaller entities may be undertaken directly by the owner-manager, and control activities are likely to be less formal.

286. In smaller entities, how might an owner-manager's involvement affect the risks associated with related party transactions?
(*a*) Owner-manager involvement has no impact on risks.
(*b*) Owner-managers decrease all risks.

(*c*) Owner-managers may mitigate or increase risks through active involvement.
(*d*) Owner-managers only increase risks.

287. When auditing related party relationships and transactions in smaller entities, what procedures can the auditor use to understand controls?
(*a*) Only inquiry of management is sufficient.
(*b*) Observation of management's oversight and review activities.
(*c*) Inspection of available relevant documentation.
(*d*) Both (*b*) and (*c*).

288. How can an auditor verify the existence of related party relationships and transactions during the audit?
(*a*) Only by reviewing income tax returns.
(*b*) Inspecting shareholder registers is the most reliable method.
(*c*) Limited to documents associated with securities regulator filings.
(*d*) Reviewing various records and documents, including income tax returns, regulatory submissions, shareholder registers, contracts, and agreements.

289. Which of the following is NOT suggested as a document to inspect for related party information?
(*a*) Entity income tax returns.
(*b*) Shareholder registers.
(*c*) Employee handbook.
(*d*) Statements of conflicts of interest.

290. What are "overall tests" in the context of auditing?
(*a*) Routine checks applied to all accounts.
(*b*) Procedures like comparisons, trend and ratio analysis, and reasonable tests collectively.
(*c*) Limited to analytical procedures.
(*d*) In-depth tests for a specific account only.

291. According to SA-520, what is the meaning of "analytical procedures"?
(*a*) Basic audit tests for financial information.
(*b*) Only evaluations of financial data.
(*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.
(*d*) Strictly limited to the investigation of inconsistencies.

292. How does SA-520 define the term "analytical procedures"?
(*a*) Strictly evaluations of financial data.
(*b*) Limited to routine checks.
(*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.
(*d*) Only analysis of financial ratios.

293. What do analytical procedures encompass, according to SA-520?
(*a*) Only analysis of financial data.
(*b*) Investigations of fluctuations or relationships consistent with other information.

(*c*) Analysis of plausible relationships among non-financial data only.
(*d*) Evaluations of financial and non-financial data through analysis of plausible relationships and necessary investigations of identified fluctuations.

294. Why have analytical procedures gained significance as substantive audit procedures?
(*a*) Due to their routine nature.
(*b*) As a replacement for overall tests.
(*c*) Because they are limited to financial data.
(*d*) In addition to reasonable tests, they provide valuable insights and can detect inconsistencies or significant deviations.

295. What are the main objectives of the auditor when using substantive analytical procedures, according to SA-520?
(*a*) To replace overall tests.
(*b*) To assist in forming an overall conclusion on the financial statements.
(*c*) To obtain irrelevant audit evidence.
(*d*) To compare account balances only.

296. How does SA-520 define analytical procedures?
(*a*) Limited to routine comparisons.
(*b*) Strictly based on financial data.
(*c*) Use comparisons and relationships to assess whether account balances or other data appear reasonable.
(*d*) Only applicable at the beginning of the audit.

297. What is the purpose of establishing relationships and comparisons in analytical procedures, as mentioned in SA-520?
(*a*) To create a complex financial model.
(*b*) To complicate audit processes.
(*c*) To detect unusual states of affairs and mistakes in accounts.
(*d*) To replace substantive audit procedures.

298. In the context of analytical procedures, what does the auditor do when abnormalities are found?
(*a*) Ignore them as immaterial.
(*b*) Assess whether the accounts have been manipulated to inflate or suppress profits.
(*c*) Immediately conclude the audit.
(*d*) Document them without further investigation.

299. When an abnormal fall in the cost of manufacture is suspected, what should the auditor do, according to the information provided?
(*a*) Ignore the suspicion.
(*b*) Compare entries only with the current year.

(*c*) Compare the entries in the outstanding book with those in the previous year and check vouchers for one month before the close of the following years.

(*d*) Rely solely on the client's explanation.

300. How can independently verifying the correctness of certain items in the Statement of Profit and Loss be achieved?

(*a*) By relying on the client's assertion.

(*b*) Through analytical procedures only.

(*c*) By comparing entries with the previous year.

(*d*) By using external confirmations.

301. What does analytical review encompass, as mentioned in the context of the provided information?

(*a*) Strictly based on financial data.

(*b*) Limited to physical balances.

(*c*) Calculation of ratios, trends, and comparisons.

(*d*) Application only at the beginning of the audit.

302. According to SA-520, what may analytical procedures help identify?

(*a*) Routine transactions.

(*b*) Unusual transactions or events, and amounts, ratios, and trends.

(*c*) Only material misstatements.

(*d*) Fraud risks exclusively.

303. What does SA-520 highlight as the potential significance of unusual or unexpected relationships identified through analytical procedures?

(*a*) No significance.

(*b*) They indicate routine financial activities.

(*c*) They assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.

(*d*) They are not relevant to the audit process.

304. Why are analytical procedures considered significant as substantive audit procedures?

(*a*) Due to their routine nature.

(*b*) Because they replace overall tests.

(*c*) They provide valuable insights and can detect inconsistencies or significant deviations.

(*d*) Limited to financial data.

305. In which stage of the audit are analytical procedures required to assist the auditor in understanding the client's business and identifying areas of potential risk?

(*a*) Testing phase.

(*b*) Completion phase.

(*c*) Both planning and testing phases.

(*d*) Only in the completion phase.

306. What is the primary purpose of using analytical procedures in the planning stage of the audit?

(*a*) To replace other audit procedures.
(*b*) To identify areas of potential risk and understand the client's business.
(*c*) To confirm financial data.
(*d*) To complete the audit.

307. What type of information is used in analytical procedures during the planning phase of the audit?

(*a*) Financial data only.
(*b*) Non-financial information only.
(*c*) Both financial data and non-financial information.
(*d*) No information is used.

308. During the planning stage, how do analytical procedures assist the auditor in determining the nature, timing, and extent of other audit procedures?

(*a*) By replacing other audit procedures.
(*b*) By confirming client assertions.
(*c*) By indicating aspects of and developments in the entity's business.
(*d*) By focusing only on non-financial information.

309. When are analytical procedures typically performed in the testing phase of the audit?

(*a*) At the beginning of the audit.
(*b*) Only during the completion phase.
(*c*) Throughout the entire audit process.
(*d*) Only during the planning phase.

310. What is the basis for the auditor's decision on which audit procedures to perform at the assertion level?

(*a*) Client's preferences.
(*b*) Auditor's experience.
(*c*) Auditor's judgment about the expected effectiveness and efficiency.
(*d*) Random selection.

311. When using analytical data prepared by management for substantive analytical procedures, what is a crucial consideration for the auditor?

(*a*) The speed of data preparation.
(*b*) Whether the data is properly prepared.
(*c*) Whether the data is extensive.
(*d*) The cost of data preparation.

312. Which factor is relevant for the effectiveness of substantive analytical procedures?

(*a*) Lack of data availability.
(*b*) Extensive disaggregation in available data.
(*c*) Limited predictability in relationships.
(*d*) Non-routine and estimation SCOTs.

313. Why are income statement accounts considered more predictable for substantive analytical procedures compared to balance sheet accounts?

(*a*) Balance sheet accounts have routing processes.
(*b*) Income statement accounts reflect accumulated transactions over a period.
(*c*) Balance sheet accounts are subject to greater management judgment.
(*d*) Income statement accounts represent the net effect of transactions at a point in time.

314. When might substantive analytical procedures be more effective in providing evidence for certain assertions?

(*a*) For assertions related to rights and obligations.
(*b*) For assertions related to existence.
(*c*) For assertions related to completeness or valuation.
(*d*) For assertions related to presentation and disclosure.

315. What type of analytical procedures can be used to address completeness, valuation/measurement, and occurrence?

(*a*) Predictive analytical procedures.
(*b*) Descriptive analytical procedures.
(*c*) Diagnostic analytical procedures.
(*d*) Confirmatory analytical procedures.

316. In designing audit procedures for higher inherent risk, what approach may the auditor take?

(*a*) Rely solely on substantive analytical procedures.
(*b*) Design tests of details to address the higher inherent risk.
(*c*) Use only random sampling techniques.
(*d*) Rely on client-provided data.

317. What is trend analysis in the context of substantive analytical procedures?

(*a*) Analysis of unrelated data points.
(*b*) Comparison of current data with unrelated prior data.
(*c*) Comparison of current data with the prior period balance or trend in two or more prior period balances.
(*d*) Analysis of non-financial data only.

318. What does trend analysis involve when comparing account fluctuations?

(*a*) Comparing the account to unrelated data points.
(*b*) Analyzing account fluctuations with non-financial data.
(*c*) Comparing current year information with information derived over several years.
(*d*) Ignoring prior period information.

319. Why is ratio analysis useful for substantive analytical procedures?

(*a*) It helps analyze non-financial data.
(*b*) It is applicable only to income statement accounts.
(*c*) It provides insights into individual balance sheet accounts.
(*d*) It relies solely on unrelated data.

320. What is the focus of reasonableness tests in substantive analytical procedures?

(*a*) Events of prior periods.
(*b*) Unpredictable fluctuations.
(*c*) Non-financial data for the audit period under consideration.
(*d*) Data unrelated to the audit period.

321. What is structural modeling in the context of substantive analytical procedures?

(*a*) Analysis of structural elements of financial statements.

(*b*) Creating a statistical model to predict current account balances based on prior data.

(*c*) Examining the structure of unrelated data points.

(*d*) Ignoring non-financial data.

322. What is the auditor required to determine when designing and performing substantive analytical procedures?

(*a*) Suitability of particular procedures for management's assertions.

(*b*) The necessity of using tests of details.

(*c*) The effectiveness of planned analytical procedures.

(*d*) The auditor's level of expertise in analytical procedures.

323. When evaluating the reliability of data for developing expectations, what factors should the auditor consider?

(*a*) The auditor's expectations.

(*b*) The complexity of the data.

(*c*) Source, comparability, nature, and relevance of information, and controls over preparation.

(*d*) The volume of transactions.

324. What is the auditor required to develop when performing substantive analytical procedures?

(*a*) Predictive models.

(*b*) Expectations of recorded amounts or ratios.

(*c*) An understanding of management's assertions.

(*d*) Comprehensive data analysis.

325. How does the auditor evaluate the precision of the developed expectation in substantive analytical procedures?

(*a*) By using unsophisticated predictive models.

(*b*) By determining the acceptable amount of difference without further investigation.

(*c*) By relying on management's assertions.

(*d*) By performing extensive tests of details.

326. What influences the determination of the suitability of particular substantive analytical procedures?

(*a*) Nature of the auditor's expectations.

(*b*) Auditor's assessment of the risk of material misstatement.

(*c*) Reliability of management's assertions.

(*d*) Volume of transactions.

327. What is relevant when determining the reliability of data for designing substantive analytical procedures?

(*a*) Auditor's expectations.

(*b*) Complexity of the information.

(c) Volume of data.
(d) Source, comparability, nature, and relevance of information, and controls over preparation.

328. When considering the source of information for reliability, which is considered more reliable?
(a) Information obtained from independent sources outside the entity.
(b) Information obtained from internal management reports.
(c) Information based on industry averages.
(d) Information gathered from subjective estimates.

329. In assessing the comparability of information, what factor may influence the need for supplementation?
(a) The reliability of information.
(b) The scope of the audit.
(c) Industry data may need supplementation for comparability.
(d) Volume of transactions.

330. What does the auditor consider when evaluating the nature and relevance of information for designing substantive analytical procedures?
(a) Whether budgets are achieved.
(b) The comprehensiveness of financial data.
(c) The entity's financial goals.
(d) Whether budgets are established as expected results.

331. Why might the auditor test the operating effectiveness of controls over the entity's preparation of information for analytical procedures?
(a) To ensure compliance with regulatory requirements.
(b) To identify errors in the financial statements.
(c) To enhance the efficiency of audit procedures.
(d) To increase confidence in the reliability of the information.

332. What is relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement?
(a) Consistency in comparing discretionary expenses.
(b) Accuracy of historical data.
(c) The auditor's knowledge of the industry.
(d) The accuracy with which expected results can be predicted.

333. When considering the degree to which information can be disaggregated for analytical procedures, what may be more effective?
(a) Applying analytical procedures to the entity as a whole.
(b) Disaggregating financial information on individual sections of an operation.
(c) Relying on non-financial information only.
(d) Ignoring components of a diversified entity.

334. What factor influences the auditor's determination of the amount of difference from the expectation that can be accepted without further investigation?

(*a*) The availability of financial forecasts.

(*b*) The level of disaggregation in the financial data.

(*c*) Materiality and the desired level of assurance.

(*d*) The auditor's personal judgment.

335. As the assessed risk increases, what happens to the amount of difference considered acceptable without investigation according to SA 330?

(*a*) It remains constant.

(*b*) It decreases.

(*c*) It increases.

(*d*) It depends on the nature of the assertion.

336. When analytical procedures identify fluctuations inconsistent with other relevant information, what should the auditor do?

(*a*) Accept the fluctuations without investigation.

(*b*) Inquire of management and obtain appropriate audit evidence relevant to management's responses.

(*c*) Ignore the inconsistencies and proceed with other audit procedures.

(*d*) Rely solely on non-financial information.

337. What is the primary purpose of the conclusions drawn from the results of analytical procedures performed in accordance with SA 520?

(*a*) To replace the need for testing individual components.

(*b*) To independently form an overall conclusion on the financial statements.

(*c*) To corroborate conclusions formed during the audit of individual components.

(*d*) To provide a standalone opinion on the financial statements.

338. If the results of analytical procedures identify a previously unrecognized risk of material misstatement, what does SA 315 require the auditor to do?

(*a*) Ignore the identified risk.

(*b*) Revise the auditor's assessment of risks and modify planned audit procedures.

(*c*) Proceed with the audit without any modifications.

(*d*) Seek external validation of the analytical procedures.

Answer Key

1. (*b*)	**2.** (*c*)	**3.** (*c*)	**4.** (*c*)	**5.** (*b*)	**6.** (*d*)	**7.** (*c*)	**8.** (*b*)	**9.** (*c*)	**10.** (*c*)
11. (*c*)	**12.** (*b*)	**13.** (*c*)	**14.** (*b*)	**15.** (*a*)	**16.** (*c*)	**17.** (*b*)	**18.** (*c*)	**19.** (*c*)	**20.** (*b*)
21. (*c*)	**22.** (*c*)	**23.** (*d*)	**24.** (*a*)	**25.** (*c*)	**26.** (*b*)	**27.** (*b*)	**28.** (*c*)	**29.** (*b*)	**30.** (*b*)
31. (*c*)	**32.** (*b*)	**33.** (*d*)	**34.** (*c*)	**35.** (*c*)	**36.** (*a*)	**37.** (*b*)	**38.** (*a*)	**39.** (*d*)	**40.** (*d*)
41. (*a*)	**42.** (*b*)	**43.** (*b*)	**44.** (*c*)	**45.** (*c*)	**46.** (*c*)	**47.** (*c*)	**48.** (*c*)	**49.** (*c*)	**50.** (*b*)
51. (*c*)	**52.** (*b*)	**53.** (*b*)	**54.** (*b*)	**55.** (*a*)	**56.** (*b*)	**57.** (*b*)	**58.** (*c*)	**59.** (*c*)	**60.** (*d*)
61. (*a*)	**62.** (*c*)	**63.** (*a*)	**64.** (*c*)	**65.** (*b*)	**66.** (*a*)	**67.** (*b*)	**68.** (*b*)	**69.** (*c*)	**70.** (*c*)

71. (*c*)	**72.** (*b*)	**73.** (*c*)	**74.** (*b*)	**75.** (*c*)	**76.** (*b*)	**77.** (*c*)	**78.** (*c*)	**79.** (*d*)	**80.** (*b*)
81. (*c*)	**82.** (*a*)	**83.** (*c*)	**84.** (*c*)	**85.** (*c*)	**86.** (*c*)	**87.** (*c*)	**88.** (*c*)	**89.** (*d*)	**90.** (*c*)
91. (*b*)	**92.** (*c*)	**93.** (*c*)	**94.** (*b*)	**95.** (*c*)	**96.** (*c*)	**97.** (*b*)	**98.** (*d*)	**99.** (*c*)	**100.** (*d*)
101. (*b*)	**102.** (*c*)	**103.** (*b*)	**104.** (*d*)	**105.** (*b*)	**106.** (*b*)	**107.** (*d*)	**108.** (*d*)	**109.** (*d*)	**110.** (*c*)
111. (*b*)	**112.** (*c*)	**113.** (*b*)	**114.** (*c*)	**115.** (*b*)	**116.** (*c*)	**117.** (*c*)	**118.** (*b*)	**119.** (*d*)	**120.** (*b*)
121. (*d*)	**122.** (*d*)	**123.** (*c*)	**124.** (*c*)	**125.** (*c*)	**126.** (*c*)	**127.** (*b*)	**128.** (*b*)	**129.** (*c*)	**130.** (*b*)
131. (*d*)	**132.** (*b*)	**133.** (*c*)	**134.** (*a*)	**135.** (*c*)	**136.** (*b*)	**137.** (*c*)	**138.** (*a*)	**139.** (*d*)	**140.** (*c*)
141. (*b*)	**142.** (*c*)	**143.** (*b*)	**144.** (*d*)	**145.** (*b*)	**146.** (*c*)	**147.** (*c*)	**148.** (*b*)	**149.** (*c*)	**150.** (*d*)
151. (*a*)	**152.** (*c*)	**153.** (*b*)	**154.** (*c*)	**155.** (*b*)	**156.** (*c*)	**157.** (*c*)	**158.** (*c*)	**159.** (*b*)	**160.** (*c*)
161. (*b*)	**162.** (*d*)	**163.** (*b*)	**164.** (*c*)	**165.** (*c*)	**166.** (*b*)	**167.** (*b*)	**168.** (*b*)	**169.** (*d*)	**170.** (*c*)
171. (*c*)	**172.** (*c*)	**173.** (*b*)	**174.** (*c*)	**175.** (*a*)	**176.** (*c*)	**177.** (*c*)	**178.** (*b*)	**179.** (*c*)	**180.** (*c*)
181. (*d*)	**182.** (*a*)	**183.** (*d*)	**184.** (*c*)	**185.** (*d*)	**186.** (*d*)	**187.** (*c*)	**188.** (*d*)	**189.** (*a*)	**190.** (*c*)
191. (*b*)	**192.** (*a*)	**193.** (*b*)	**194.** (*a*)	**195.** (*a*)	**196.** (*c*)	**197.** (*a*)	**198.** (*d*)	**199.** (*a*)	**200.** (*c*)
201. (*b*)	**202.** (*d*)	**203.** (*a*)	**204.** (*c*)	**205.** (*d*)	**206.** (*d*)	**207.** (*d*)	**208.** (*c*)	**209.** (*b*)	**210.** (*b*)
211. (*b*)	**212.** (*c*)	**213.** (*c*)	**214.** (*c*)	**215.** (*c*)	**216.** (*a*)	**217.** (*c*)	**218.** (*b*)	**219.** (*a*)	**220.** (*d*)
221. (*c*)	**222.** (*b*)	**223.** (*d*)	**224.** (*d*)	**225.** (*b*)	**226.** (*c*)	**227.** (*c*)	**228.** (*d*)	**229.** (*c*)	**230.** (*c*)
231. (*d*)	**232.** (*c*)	**233.** (*b*)	**234.** (*b*)	**235.** (*a*)	**236.** (*b*)	**237.** (*b*)	**238.** (*c*)	**239.** (*c*)	**240.** (*b*)
241. (*a*)	**242.** (*c*)	**243.** (*b*)	**244.** (*a*)	**245.** (*b*)	**246.** (*b*)	**247.** (*d*)	**248.** (*a*)	**249.** (*b*)	**250.** (*c*)
251. (*c*)	**252.** (*b*)	**253.** (*b*)	**254.** (*c*)	**255.** (*d*)	**256.** (*d*)	**257.** (*c*)	**258.** (*d*)	**259.** (*d*)	**360.** (*b*)
261. (*b*)	**262.** (*d*)	**263.** (*c*)	**264.** (*c*)	**265.** (*d*)	**266.** (*c*)	**267.** (*b*)	**268.** (*b*)	**269.** (*b*)	**270.** (*c*)
271. (*b*)	**272.** (*b*)	**273.** (*b*)	**274.** (*b*)	**275.** (*b*)	**276.** (*c*)	**277.** (*c*)	**278.** (*c*)	**279.** (*b*)	**280.** (*c*)
281. (*b*)	**282.** (*d*)	**283.** (*c*)	**284.** (*d*)	**285.** (*d*)	**286.** (*c*)	**287.** (*d*)	**288.** (*d*)	**289.** (*c*)	**290.** (*b*)
291. (*c*)	**292.** (*c*)	**293.** (*d*)	**294.** (*d*)	**295.** (*b*)	**296.** (*c*)	**297.** (*c*)	**298.** (*b*)	**299.** (*c*)	**300.** (*c*)
301. (*c*)	**302.** (*b*)	**303.** (*c*)	**304.** (*c*)	**305.** (*c*)	**306.** (*b*)	**307.** (*c*)	**308.** (*c*)	**309.** (*c*)	**310.** (*c*)
311. (*b*)	**312.** (*c*)	**313.** (*b*)	**314.** (*c*)	**315.** (*a*)	**316.** (*b*)	**317.** (*c*)	**318.** (*c*)	**319.** (*c*)	**320.** (*c*)
321. (*b*)	**322.** (*a*)	**323.** (*c*)	**324.** (*b*)	**325.** (*b*)	**326.** (*b*)	**327.** (*d*)	**328.** (*a*)	**329.** (*c*)	**330.** (*d*)
331. (*d*)	**332.** (*d*)	**333.** (*b*)	**334.** (*c*)	**335.** (*b*)	**336.** (*b*)	**337.** (*c*)	**338.** (*b*)		

SOLUTION

1. (*b*) Information used by the auditor in arriving at conclusions for the financial statements
2. (*c*) A variety including documentary examination, physical examination, and statements
3. (*c*) Counting cash
4. (*c*) A variety including client's ledger invoices, debit notes, credit notes, and monthly accounts statements
5. (*b*) To prioritize verification procedures based on evidence weight
6. (*d*) Evidence that is typically available in the context of the transaction
7. (*c*) What normally should be available in the context of the transaction
8. (*b*) A procedure for obtaining greater satisfaction about the reliability of an assertion
9. (*c*) To prove or disprove assertions
10. (*c*) A variety of fields, including documentary examination, physical examination, and statements
11. (*c*) Invoices and contracts
12. (*b*) Cheques and records of electronic fund transfers
13. (*c*) Manuals containing details of internal control
14. (*b*) Minutes of the meetings
15. (*a*) Visual evidence
16. (*c*) Inspection report
17. (*b*) Comes from third parties not interested in manipulation
18. (*c*) Oral evidence
19. (*c*) Possibilities of manipulation and creation of false evidence
20. (*b*) Directly impacts the opinion
21. (*c*) Logical connection with the purpose
22. (*c*) Source and nature of information
23. (*d*) All of the above
24. (*a*) Inspecting unpaid invoices
25. (*c*) Evaluating operating effectiveness
26. (*b*) Detecting material misstatements
27. (*b*) Substantive procedures
28. (*c*) Detecting material misstatements
29. (*b*) Deviation in conditions
30. (*b*) Supports existence and valuation
31. (*c*) It's often relevant to the same assertion
32. (*b*) Detecting material misstatements
33. (*d*) To enhance the reliability of audit evidence
34. (*c*) Testing recorded accounts payable
35. (*c*) The source and nature of the information
36. (*a*) Lack of objectivity
37. (*b*) When related controls are effective
38. (*a*) Contemporaneously written records
39. (*d*) Contemporaneously written records

40. (*d*) Controls over preparation and maintenance
41. (*a*) Original documents
42. (*b*) Sufficiency
43. (*b*) Higher risks require more evidence
44. (*c*) The source and nature of evidence
45. (*b*) Higher quality requires less evidence
46. (*c*) Forming the auditor's opinion
47. (*c*) Previous audits and the entity's accounting records
48. (*c*) Absence of information
49. (*c*) Supervision
50. (*b*) When audit risk is reduced to an acceptably low level
51. (*c*) More evidence is required for more material assertions
52. (*b*) The risk that a misstatement could occur before considering controls
53. (*b*) More evidence for larger, more heterogeneous populations
54. (*b*) The risk that internal controls will not prevent misstatements
55. (*a*) Lower risk of material misstatement
56. (*b*) By performing procedures like reperformance and reconciliation
57. (*b*) More assurance is obtained from consistent evidence
58. (*c*) By using information from sources independent of the entity
59. (*c*) Both risk assessment procedures and further audit procedures
60. (*d*) Inspection
61. (*a*) Observing inventory counting
62. (*c*) External Confirmation
63. (*a*) Checking the mathematical accuracy of documents or records
64. (*c*) Independently executing procedures originally performed by the entity
65. (*b*) Analytical Procedures
66. (*a*) Seeking information from knowledgeable persons
67. (*b*) When evaluating financial information by studying relationships
68. (*b*) Existence, rights, and obligations
69. (*c*) External Confirmation
70. (*c*) May require additional procedures due to electronic data
71. (*c*) When the entity discards source documents after scanning
72. (*b*) They may require audit procedures to be performed at specific times
73. (*c*) The possibility of incomplete audit trails
74. (*b*) Purchase orders and invoices
75. (*c*) Procedures to understand the entity and its environment, assess risks, and identify potential misstatements.
76. (*b*) To evaluate the operating effectiveness of controls.
77. (*c*) Detects material misstatements at the assertion level.
78. (*c*) Detailed examinations of specific transactions, account balances, and disclosures.
79. (*d*) Analyzing relationships and trends in financial data.

80. (*b*) Representations by management embodied in the financial statements.
81. (*c*) Representations made by management regarding recognition, measurement, presentation, and disclosure.
82. (*a*) Assertions about classes of transactions and events.
83. (*c*) Presentation and disclosure.
84. (*c*) Assertions about compliance with legislation or proper authority.
85. (*c*) May express assertions differently as long as all aspects are covered.
86. (*c*) To track and document the flow of transactions, verifying their source and integrity.
87. (*c*) By documenting evidence of events and operations, reducing fraud and unauthorized use.
88. (*c*) They involve costs in terms of system expenditure and time for data analysis.
89. (*d*) By providing evidence on whether controls were operating effectively.
90. (*c*) They can track user activities, fixing responsibility and aiding in problem analysis.
91. (*b*) It may influence the nature, timing, and extent of audit procedures based on various factors.
92. (*c*) The availability of alternative sources of audit evidence.
93. (*c*) It may influence the nature and extent of audit procedures.
94. (*b*) Obtain audit evidence about the accuracy and completeness of the information.
95. (*c*) When the population constitutes a small number of large value items.
96. (*c*) When the population constitutes a small number of large value items.
97. (*b*) The auditor's understanding of the entity.
98. (*d*) When items are suspicious, unusual, or have a history of error.
99. (*c*) Repetitive nature of a calculation in an information system.
100. (*d*) To verify a large proportion of the total amount.
101. (*b*) Increased sampling risk.
102. (*c*) When the population is large and homogenous.
103. (*b*) Significant risk and other means insufficient.
104. (*d*) The population constitutes a small number of large value items.
105. (*b*) To draw conclusions about an entire population based on a sample.
106. (*b*) Modify or add to audit procedures to resolve the inconsistency.
107. (*d*) Document the inconsistency and resolution.
108. (*d*) An expert in a field other than accounting or auditing, used by the entity to assist in preparing financial statements.
109. (*d*) The competence, capabilities, and objectivity of the expert.
110. (*c*) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.
111. (*b*) SA 500 - Audit Evidence
112. (*c*) Conclude whether sufficient appropriate audit evidence has been obtained.
113. (*b*) Evaluating and improving the effectiveness of governance, risk management, and internal control processes
114. (*c*) Financial reporting preparation
115. (*b*) Identifying and evaluating significant exposures to risk
116. (*c*) Design, implementation, and operating effectiveness of internal control

117. (*c*) Compliance with laws, regulations, and internal requirements
118. (*b*) Evaluating performance management
119. (*d*) Operational efficiency
120. (*b*) To obtain information relevant to assessments of risks of material misstatement
121. (*d*) After appropriate evaluation
122. (*d*) Direct assistance
123. (*c*) To define the external auditor's responsibilities when using the work of internal auditors
124. (*c*) External auditor
125. (*c*) External auditor
126. (*c*) To determine whether the work is adequate for purposes of the audit
127. (*b*) To establish a framework for external auditor's judgments
128. (*b*) External auditors
129. (*c*) Direct, supervise, and review their work appropriately
130. (*b*) Organizational status and relevant policies
131. (*d*) Quality control and systematic approach
132. (*b*) The extent to which organizational status supports objectivity
133. (*c*) Ability to perform tasks without bias
134. (*a*) Direct access to those charged with governance
135. (*c*) Constraints on communicating findings to the external auditor
136. (*b*) To determine the appropriateness of remuneration
137. (*c*) Knowledge and skills required for tasks
138. (*a*) Technical training and proficiency
139. (*d*) To enable diligent task performance
140. (*c*) Both are equally important and interchangeable
141. (*b*) Objectivity of internal auditors
142. (*c*) Systematic and disciplined approach
143. (*b*) Appropriateness of internal audit procedures
144. (*d*) When the function lacks competence
145. (*b*) The relevance to the overall audit strategy and plan
146. (*c*) Observations of inventory counts
147. (*c*) The nature and scope of the internal audit work
148. (*b*) When it aligns with the overall audit strategy
149. (*c*) When there is more judgment involved in planning and performing relevant audit procedures
150. (*d*) The assessed risk of material misstatement
151. (*a*) When the internal audit function has a low level of competence
152. (*c*) Discuss the planned use of its work with the function
153. (*b*) Nature and extent of audit procedures performed
154. (*c*) Perform sufficient audit procedures on the body of work of the internal audit function
155. (*b*) Nature of the entity's products
156. (*c*) Using internal auditors to perform audit procedures under the direction, supervision, and review of the external auditor

157. (*c*) If prohibited by law or regulation

158. (*c*) There are significant threats to the objectivity of the internal auditor

159. (*b*) Situations already reported to management by the internal audit function

160. (*c*) Agreement from internal auditors to follow external auditor's instructions and maintain confidentiality

161. (*b*) Financial reporting, operational effectiveness, and compliance

162. (*d*) Effectiveness of internal controls over financial reporting

163. (*b*) It is an additional and distinct opinion from the one on financial statements

164. (*c*) Internal financial control is broader, covering financial reporting, compliance, and more

165. (*c*) Internal Financial Controls

166. (*b*) It is economically wasteful

167. (*b*) To prevent detection and correction of frauds and errors

168. (*b*) More attention towards questions of principles and controls

169. (*d*) Auditor's judgment

170. (*c*) To draw conclusions about the population based on a sample

171. (*c*) When auditors decide to use audit sampling in performing procedures

172. (*c*) Entire set of data from which a sample is drawn

173. (*b*) Appropriateness, Completeness, and Reliability

174. (*c*) To provide a reasonable basis for the auditor to draw conclusions about the population

175. (*a*) Complexity of operation

176. (*c*) Ensuring that each sampling unit has a chance of selection

177. (*c*) To assess the risk of fraud

178. (*b*) Obtaining evidence that the audit sample is incomplete

179. (*c*) It is irrelevant to the purpose of the audit procedure

180. (*c*) Based on the examination of a small number of items

181. (*d*) The expected misstatement in the population

182. (*a*) When the expected misstatement is high

183. (*d*) To ensure that each sampling unit has a chance of selection

184. (*c*) It is irrelevant to the purpose of the audit procedure

185. (*d*) The audit sample and determining sample size

186. (*d*) To reduce the variability of items within each stratum and allow for a smaller sample size

187. (*c*) By the size of the items

188. (*d*) It directs audit effort to larger value items and results in smaller sample sizes

189. (*a*) The results are projected only to the stratum of the items selected

190. (*c*) When the characteristic indicates a higher risk of misstatement

191. (*b*) Individual monetary units within the population

192. (*a*) Larger value items have a greater chance of selection

193. (*b*) It decreases the sample size

194. (*a*) It increases the sample size

195. (*a*) It increases the sample size

196. (*c*) It has no significant effect on the sample size

197. (*a*) It increases the sample size
198. (*d*) Simple Random Sampling
199. (*a*) It involves dividing the population into separate groups, and a sample is taken from each group.
200. (*c*) Monetary Unit Sampling
201. (*b*) It selects items without following a structured technique, avoiding conscious bias or predictability.
202. (*d*) Most populations are structured such that items in a sequence can be expected to have similar characteristics.
203. (*a*) Deviation
204. (*c*) Perform the procedure on a replacement cheque.
205. (*d*) Reviewing subsequent cash receipts.
206. (*d*) Replace the item after adequately checking its correctness.
207. (*d*) Apply alternative audit procedures.
208. (*c*) Misstatement
209. (*b*) Extend audit procedures to items with the common feature.
210. (*b*) Intentional actions and the possibility of fraud.
211. (*b*) Investigate the nature and causes.
212. (*c*) High certainty that it is not representative of the population.
213. (*c*) Perform additional audit procedures.
214. (*c*) Project misstatements broadly for an overall view.
215. (*c*) Exclude the misstatement from the projection.
216. (*a*) Tests of controls.
217. (*c*) To reduce the variability of items within each stratum.
218. (*b*) It sets the monetary amount for which assurance is sought regarding the absence of actual misstatement in the population.
219. (*a*) The maximum rate of deviation that the auditor is willing to accept in the sample.
220. (*d*) To obtain sufficient appropriate audit evidence related to specific aspects.
221. (*c*) The auditor must attend physical inventory counting, unless impracticable.
222. (*b*) The nature of inventory.
223. (*d*) Perform inspection of documentation of subsequent sales.
224. (*d*) Request confirmation from the third party or perform inspection.
225. (*b*) Inquiry of management and, where applicable, others within the entity.
226. (*c*) Consideration of litigation and claims requiring accounting estimates or related disclosures.
227. (*c*) Seek direct communication through a letter of inquiry.
228. (*d*) Perform alternative audit procedures.
229. (*c*) When there is disagreement between management and the entity's external legal counsel.
230. (*c*) Information about different types of products and services and operations in different geographical areas.
231. (*d*) The auditor's responsibility is in relation to the financial statements taken as a whole.
232. (*c*) Obtaining an understanding of the methods used by management in determining segment information.

233. (*b*) Whether the methods result in disclosure in accordance with the applicable financial reporting framework.
234. (*b*) No, the auditor's responsibility is in relation to the financial statements taken as a whole.
235. (*a*) Operating profits as a percentage of sales.
236. (*b*) Allocation of assets and costs among segments.
237. (*b*) Consistency with prior periods.
238. (*c*) Audit evidence obtained from independent sources outside the entity is generally more reliable.
239. (*c*) Designing and performing external confirmation procedures.
240. (*b*) Direct written response from a third party to the auditor.
241. (*a*) A request that the confirming party respond directly to the auditor indicating agreement or disagreement with the information.
242. (*c*) A request for the confirming party to respond directly only if they disagree with the information provided.
243. (*b*) A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.
244. (*a*) A response that indicates a difference between information requested to be confirmed and information provided by the confirming party.
245. (*b*) Select confirming parties and request information.
246. (*b*) The assertion being addressed.
247. (*d*) It asks the confirming party to reply in all cases.
248. (*a*) Use blank confirmation requests.
249. (*b*) Checking the validity of addresses on confirmation requests before sending.
250. (*c*) When a reply to the previous request is not received within a reasonable time.
251. (*c*) Inquire as to management's reasons, evaluate implications, and perform alternative procedures.
252. (*b*) Communicate with those charged with governance and determine implications for the audit and opinion.
253. (*b*) Ongoing legal dispute or negotiation with the confirming party.
254. (*c*) Due to the risk of management denying access to evidence revealing fraud or error.
255. (*d*) Examining subsequent cash disbursements or correspondence from third parties.
256. (*d*) The risk of material misstatement is assessed as low, and specific conditions are met.
257. (*c*) When the information in the request is unfavorable to the confirming party.
258. (*d*) Presence of circumstances causing recipients to disregard the requests.
259. (*d*) Reliable response
260. (*b*) Unreliable response
261. (*b*) Other audit procedures performed
262. (*d*) Lack of response from the confirming party
263. (*c*) An engagement where the financial statements for the prior period were not audited.
264. (*c*) Balances that exist at the beginning of the period.
265. (*d*) The auditor from a different audit firm who audited the financial statements in the prior period.

266. (*c*) Determining whether the prior period's closing balances have been brought forward correctly to the current period.

267. (*b*) Determining whether the opening balances reflect the application of appropriate accounting policies.

268. (*b*) Communicate the misstatements with appropriate management and governance.

269. (*b*) Perusing copies of the audited financial statements from the prior year.

270. (*c*) The accounting policies followed by the entity.

271. (*b*) The significance of the opening balances relative to the current period's financial statements.

272. (*b*) Whether the predecessor auditor's opinion was modified.

273. (*b*) Obtain copies of the audited financial statements and relevant documents.

274. (*b*) Observe a current physical inventory count and reconcile it to opening inventory quantities.

275. (*b*) Confirm with third parties.

276. (*c*) **Express a qualified or adverse opinion, as appropriate:** Expressing a qualified or adverse opinion is the appropriate response when there are issues with the consistent application of accounting policies or inadequate presentation and disclosure of changes in policies.

277. (*c*) Express a qualified opinion or a disclaimer of opinion, as appropriate.

278. (*c*) Express a qualified or adverse opinion, as appropriate.

279. (*d*) A person or entity that has control or significant influence over the reporting entity.

280. (*c*) Entities under common control by a state (national, regional, or local government).

281. (*b*) Control allows participation in financial and operating policy decisions, while significant influence involves the ability to govern an entity's activities.

282. (*d*) Being part of those charged with governance or key management.

283. (*c*) Identifying and assessing risks of material misstatement due to fraud.

284. (*d*) All of the above.

285. (*d*) The role of governance in smaller entities may be undertaken directly by the owner-manager, and control activities are likely to be less formal.

286. (*c*) Owner-managers may mitigate or increase risks through active involvement.

287. (*d*) Both (*b*) and (*c*).

288. (*d*) Reviewing various records and documents, including income tax returns, regulatory submissions, shareholder registers, contracts, and agreements.

289. (*c*) Employee handbook.

290. (*b*) Procedures like comparisons, trend and ratio analysis, and reasonable tests collectively.

291. (*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.

292. (*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.

293. (*d*) Evaluations of financial and non-financial data through analysis of plausible relationships and necessary investigations of identified fluctuations.

294. (*d*) In addition to reasonable tests, they provide valuable insights and can detect inconsistencies or significant deviations.

295. (*b*) To assist in forming an overall conclusion on the financial statements.

296. (*c*) Use comparisons and relationships to assess whether account balances or other data appear reasonable.

297. (*c*) To detect unusual states of affairs and mistakes in accounts.
298. (*b*) Assess whether the accounts have been manipulated to inflate or suppress profits.
299. (*c*) Compare the entries in the outstanding book with those in the previous year and check vouchers for one month before the close of the following years.
300. (*c*) By comparing entries with the previous year.
301. (*c*) Calculation of ratios, trends, and comparisons.
302. (*b*) Unusual transactions or events, and amounts, ratios, and trends.
303. (*c*) They assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.
304. (*c*) They provide valuable insights and can detect inconsistencies or significant deviations.
305. (*c*) Both planning and testing phases.
306. (*b*) To identify areas of potential risk and understand the client's business.
307. (*c*) Both financial data and non-financial information.
308. (*c*) By indicating aspects of and developments in the entity's business.
309. (*c*) Throughout the entire audit process.
310. (*c*) Auditor's judgment about the expected effectiveness and efficiency.
311. (*b*) Whether the data is properly prepared.
312. (*c*) Limited predictability in relationships.
313. (*b*) Income statement accounts reflect accumulated transactions over a period.
314. (*c*) For assertions related to completeness or valuation.
315. (*a*) Predictive analytical procedures.
316. (*b*) Design tests of details to address the higher inherent risk.
317. (*c*) Comparison of current data with the prior period balance or trend in two or more prior period balances.
318. (*c*) Comparing current year information with information derived over several years.
319. (*c*) It provides insights into individual balance sheet accounts.
320. (*c*) Non-financial data for the audit period under consideration.
321. (*b*) Creating a statistical model to predict current account balances based on prior data.
322. (*a*) Suitability of particular procedures for management's assertions.
323. (*c*) Source, comparability, nature, and relevance of information, and controls over preparation.
324. (*b*) Expectations of recorded amounts or ratios.
325. (*b*) By determining the acceptable amount of difference without further investigation.
326. (*b*) Auditor's assessment of the risk of material misstatement.
327. (*d*) Source, comparability, nature, and relevance of information, and controls over preparation.
328. (*a*) Information obtained from independent sources outside the entity.
329. (*c*) Industry data may need supplementation for comparability.
330. (*d*) Whether budgets are established as expected results.
331. (*d*) To increase confidence in the reliability of the information.
332. (*d*) The accuracy with which expected results can be predicted.
333. (*b*) Disaggregating financial information on individual sections of an operation.
334. (*c*) Materiality and the desired level of assurance.

335. (*b*) It decreases.

336. (*b*) Inquire of management and obtain appropriate audit evidence relevant to management's responses.

337. (*c*) To corroborate conclusions formed during the audit of individual components.

338. (*b*) Revise the auditor's assessment of risks and modify planned audit procedures.