

Chapter One:

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) As businesses become more complex and need more reliable information, public accountants play a vital role in:
- A) providing tax services.
 - B) providing business advisory services.
 - C) providing assurance on information other than financial reports.
 - D) all of the above

Answer: D

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

- 2) Auditors are valued for their experience in assisting companies to improve operations and:
- A) independence in providing assurances.
 - B) technical knowledge.
 - C) competence.
 - D) all of the above

Answer: D

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

- 3) Any service in which the public accounting firm issues a written communication expressing a conclusion with respect to the reliability of a written assertion that is the responsibility of another party is:
- A) an accounting and bookkeeping service.
 - B) a management advisory service.
 - C) a tax service.
 - D) an attestation service.

Answer: D

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

4) Which of the following is classified as an attestation service?

- A) Compilation
- B) Tax planning engagement
- C) Consulting engagement
- D) Audit of historical financial statements

Answer: D

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

5) When a business contacts an auditor for a service providing no assurances, what type of engagement is being requested?

- A) Audit
- B) Tax Planning
- C) Review
- D) Compliance

Answer B

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

An audit of historical financial statements is a form of:

6)

- A) assurance service in which the auditor issues a written report expressing an opinion about whether the financial statements are in material conformity with auditing standards.
- B) attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are in material conformity with auditing standards.
- C) attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are in material conformity with accounting standards.
- D) none of the above

Answer: C

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

7) Privately held companies have annual financial statement audits:

- A) to obtain financing from banks.
- B) because external users rely on it.
- C) because they are required to under the *Corporations Act*.

D) all of the above

Answer: A

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

8) Publicly traded companies have annual financial statement audits:

A) because external users rely on it.

B) because they are required to under the *Corporations Act*.

C) to obtain financing from banks.

D) all of the above

Answer: B

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

9) Which one of the following services provides a moderate level of assurance about the client's financial statements?

A) forecasts and projections

B) review

C) audit

D) compliance

Answer: B

Diff: 2

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

10) Assessing that a company's policies effectively ensure the company's compliance with environmental standards and laws is:

A) an example of a business performance measurement service.

B) part of the financial statement audit process.

C) an example of an assurance service.

D) part of the internal auditor's responsibilities.

Answer: C

Diff: 2

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

11) In response to the growing need for assurance resulting from the explosion of business transacted

electronically over the Internet, the AICPA created:

- A) *AICPA WebPartner Assurance Services.*
- C) *Information System Reliability Services.*

- B) *Webtrust Assurance Services.*
- D) *Internet Reliability Assurance Services.*

Answer: B

Diff: 2

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

12) Business performance measurement services involve:

- A) the board of directors and managers using a balanced scorecard to define an entity's financial objectives and goals.
- B) assurance about whether nonfinancial information being reported from the entity's performance measurement system is reliable.
- C) assurance about whether financial and nonfinancial information being reported from the entity's performance measurement system is reliable.
- D) none of the above

Answer: C

Diff: 3

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

13) Improving operational controls is one way an auditor is able to:

- A) determine if a potential client is trustworthy.
- B) help implement recommendations that improve profitability.
- C) complete the final stages of the audit.
- D) provide consulting services during the audit.

Answer B

Diff: 1

Topic: Other assurance services

AACSB: Analytical Thinking

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

14) 'Other assurance services' are similar to, yet differ somewhat from, attestation services. When performing 'other assurance services,' the public accountant:

- A) is not required to issue a written report, and the assurance is about the reliability and relevance of information.
- B) is required to issue a written report, and the assurance is about the completeness and sufficiency of information.
- C) is not required to issue a written report, and the assurance is about the completeness and sufficiency of information.

D) is required to issue a written report, and the assurance is about the reliability and relevance of information.

Answer: A

Diff: 2

Topic: Other assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

15) Which of the following exists independently from an audit?

- A) risk-free interest rate and business risk
- B) information risk and the risk-free interest rate
- C) business risk and information risk
- D) risk-free interest rate and audit risk

Answer: A

Diff: 3

Topic: Economic demand for auditing

AACSB: Reflective Thinking

Objective: LO 1.2. Explain the importance of auditing in reducing information risk.

16) Remoteness of information is a cause of:

- A) information risk.
- B) complex exchange transactions.
- C) rejecting a potential client.
- D) auditing the financial statements.

Answer A

Diff: 1

Topic: Causes of information risk

AACSB: Written and Oral Communication

Objective: LO 1.3. List the causes of information risk, and explain how this risk may be reduced.

Which one of the following is NOT a means of reducing information risk?

17)

- A) providing audited financial statements
- B) independent verification by the user
- C) implementing a system of quality control
- D) sharing the risk with management

Answer: C

Diff: 2

Topic: Causes of information risk

AACSB: Written and Oral Communication

Objective: LO 1.3. List the causes of information risk, and explain how this risk may be reduced.

18) Which one of the following statements is NOT true about audit reports?

- A) They are prepared as the final stage of the audit process.
- B) They differ in nature.
- C) They communicate the auditor's findings to users.

D) They all follow the same form.

Answer: D

Diff: 2

Topic: Causes of information risk

AACSB: Written and Oral Communication

Objective: LO 1.3. List the causes of information risk, and explain how this risk may be reduced.

19) What is a by-product of an audit in regards to information risk?

A) increases the amount of available capital

B) lowers the cost of obtaining capital

C) increases the level of information risk

D) increases the cost of obtaining capital

Answer: B

Diff: 3

Topic: Causes of information risk

AACSB: Application of Knowledge

Objective: LO 1.3. List the causes of information risk, and explain how this risk may be reduced.

20) What is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria?

A) marketing B) accounting C) finance D) auditing

Answer: D

Diff: 1

Topic: Nature of auditing

AACSB: Written and Oral Communication

Objective: LO 1.4. Describe auditing.

21) Which of the following is a form of evidence used by auditors?

A) the auditor's own observations

B) oral statements from the audit client

C) written communication obtained from entities outside the audit client

D) all of the above

Answer: D

Diff: 2

Topic: Nature of auditing

AACSB: Written and Oral Communication

Objective: LO 1.4. Describe auditing.

22) Providing quantitative information that management and others can use to make decisions is the function of:

A) auditing.

B) accounting.

C) finance.

D) management information systems.

Answer: B

Diff: 2

Topic: Nature of auditing

AACSB: Written and Oral Communication

Objective: LO 1.4. Describe auditing.

- 23) The criteria for evaluating quantitative information vary. For example, in the audit of historical financial statements by public accounting firms, the criteria are usually:
- A) regulations of the Australian Taxation Office.
 - B) regulations of the Australian Securities and Investment Commission.
 - C) applicable accounting standards.
 - D) generally accepted auditing standards.

Answer: C

Diff: 2

Topic: Nature of auditing

AACSB: Written and Oral Communication

Objective: LO 1.4. Describe auditing.

- 24) An audit of financial statements is conducted to determine whether the:
- A) organisation is operating efficiently and effectively.
 - B) overall financial statements are stated in accordance with specified criteria.
 - C) auditee is following specific procedures or rules set down by a peer group authority.
 - D) none of the above

Answer: B

Diff: 2

Topic: Distinction between auditing and accounting

AACSB: Written and Oral Communication

Objective: LO 1.5. Distinguish between auditing and accounting.

- 25) In 'auditing' accounting data, the primary concern is with:
- A) determining if fraud has occurred.
 - B) determining whether recorded information properly reflects the economic events that occurred during the accounting period.
 - C) analysing the nonfinancial information to be sure that it complies with government requirements.
 - D) determining if taxable income has been calculated correctly.

Answer: B

Diff: 2

Topic: Distinction between auditing and accounting

AACSB: Written and Oral Communication

Objective: LO 1.5. Distinguish between auditing and accounting.

- 26) To operate effectively, internal auditors:
- A) report on the financial statements of the organisation.
 - B) are independent of the organisation.
 - C) are independent of the line functions in an organisation.
 - D) none of the above

Answer: C

Diff: 3

Topic: Distinction between auditing and accounting

AACSB: Ethical Understanding and Reasoning
Objective: LO 1.5. Distinguish between auditing and accounting.

27) Making recommendations for improving operational performance is an objective of:

- A) a tax-planning engagement.
- B) a performance audit.
- C) an attestation engagement.
- D) a financial statement audit.

Answer: B

Diff: 2

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

28) An examination of part of an organisation's procedures and methods for the purpose of evaluating efficiency and effectiveness in the manufacturing department is what type of audit?

- A) compliance audit
- B) financial statement audit
- C) performance audit
- D) production audit

Answer: C

Diff: 2

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

29) An audit to determine whether the auditee is following specific procedures or rules set down by some higher authority is classified as:

- A) an operational audit.
- B) a compliance audit.
- C) a production audit.
- D) an audit of financial statements.

Answer: B

Diff: 2

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

30) Reviewing operating procedures and methods is a characteristic of:

- A) an attestation engagement.
- B) a compilation engagement.
- C) a performance audit.
- D) a compliance audit.

Answer: C

Diff: 3

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

- 31) A strategic system audit approach assists the auditor to:
- A) identify risks associated with the financial statements.
 - B) evaluate audit evidence.
 - C) determine which areas of the audit to focus on.
 - D) all of the above

Answer: A

Diff: 3

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

- 32) Which one of the following is more difficult to evaluate objectively?
- A) compliance with government regulations
 - B) efficiency and effectiveness of operations
 - C) presentation of financial statements in accordance with applicable accounting standards
 - D) All of the above are equally difficult.

Answer: B

Diff: 3

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

- 33) Which of the following can be regarded as being solely 'compliance' audits?
- A) Auditor-General's examinations of the returns of taxpayers
 - B) determining if bank requirements for loan continuation have been met
 - C) an internal auditor's review of his employer's noncurrent asset purchases
 - D) evaluating whether a computerised payroll system is operating effectively

Answer: B

Diff: 3

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

To operate effectively, internal auditors must be:

- 34)
- A) registered with ASIC and meet minimum professional development requirements.
 - B) independent of the line functions within an organisation.
 - C) contracted by the organisation subject to audit.
 - D) members of either the Institute of Chartered Accountants in Australia or CPA Australia.

Answer: B

Diff: 1

Topic: Types of auditors
AACSB: Written and Oral Communication
Objective: LO 1.7. Identify the primary types of auditors.

- 35) Which one of the following is NOT required in order to become a registered company auditor with ASIC?
- A) membership of ICAA, CPA Australia, or another prescribed body
 - B) sufficient practical experience
 - C) satisfying the Commission that the applicant is a fit and proper person to be so registered
 - D) evidence that adequate professional indemnity insurance is held

Answer: D

Diff: 2

Topic: Types of auditors
AACSB: Written and Oral Communication
Objective: LO 1.7. Identify the primary types of auditors.

- 36) Which of the following is NOT employed by the entity being audited?
- A) controller
 - B) internal auditor
 - C) external auditor
 - D) CEO

Answer: C

Diff: 1

Topic: Types of auditors
AACSB: Written and Oral Communication
Objective: LO 1.7. Identify the primary types of auditors.

- 37) Firms providing audit services can be incorporated provided:
- A) all partners are listed as directors.
 - B) they are not large partnerships.
 - C) they obtain appropriate and adequate professional indemnity insurance.
 - D) the total income of the audit firm is above \$2M.

Answer: C

Diff: 2

Topic: Public accounting firms
AACSB: Written and Oral Communication
Objective: LO 1.8. Describe the nature of public accounting firms, what they do, and their structure.

- 38) A compilation report:
- A) is prepared during a taxation audit.
 - B) communicates an auditor's findings to a special user group that commissioned the audit.
 - C) is a review of an audit providing a low level of assurance.
 - D) provides no assurance to third parties.

Answer: D

Diff: 2

Topic: Public accounting firms

AACSB: Written and Oral Communication

Objective: LO 1.8. Describe the nature of public accounting firms, what they do, and their structure.

39) Statements of auditing standards (ASAs) are issued by:

- A) the Institute of Chartered Accountants in Australia.
- B) the Australian Securities Exchange.
- C) Australian Auditing and Assurance Standards Board.
- D) CPA Australia.

Answer: C

Diff: 2

Topic: Professional accounting bodies

AACSB: Written and Oral Communication

Objective: LO 1.9. Describe the key functions performed by the professional accounting bodies.

40) Which of the following is NOT a category of auditing standards?

- A) audit conclusions and reporting
- B) risk assessment and response to assessed risks
- C) ethical requirements
- D) general principles and responsibilities

Answer: C

Diff: 2

Topic: Australian auditing standards

AACSB: Written and Oral Communication

Objective: LO 1.10. Use auditing standards as a basis for further study.

41) Auditing standards (ASAs):

- A) are issued by the AUASB.
- B) establish mandatory requirements.
- C) have the 'force of law' under the *Corporations Act 2001*.
- D) all of the above

Answer: D

Diff: 2

Topic: Australian auditing standards

AACSB: Written and Oral Communication

Objective: LO 1.10. Use auditing standards as a basis for further study.

If an auditor has determined that the client has an excellent internal control structure:

42)

- A) business risk is significantly reduced.
- B) the type of evidence required changes, but not the quantity.
- C) the amount of audit evidence to be collected might be reduced relative to a situation where the control structure is not adequate.
- D) the auditor can conclude that there is reasonable assurance that the financial statements do not contain material misstatements.

Answer: C

Diff: 3

Topic: Australian auditing standards
AACSB: Written and Oral Communication
Objective: LO 1.10. Use auditing standards as a basis for further study.

- 43) An auditor could determine how many items need to be selected from the population for a particular audit test by consulting:
- A) ASA 500. B) ASA 530. C) ASA 300. D) none of the above

Answer: B
Diff: 3
Topic: Australian auditing standards
AACSB: Written and Oral Communication
Objective: LO 1.10. Use auditing standards as a basis for further study.

- 44) The International Standards on Auditing (ISAs) are issued by:
- A) International Institute of Internal Auditors.
B) International Quality Control Association.
C) International Federation of Accountants.
D) United States Securities and Exchange Commission.

Answer: C
Diff: 1
Topic: Australian auditing standards
AACSB: Written and Oral Communication
Objective: LO 1.10. Use auditing standards as a basis for further study.

10) Review and approval of audit programs by the engagement partner is a characteristic of which of the six objectives of quality control?

- A) professional development B) leadership responsibilities
C) engagement performance D) monitoring

Answer: C
Diff: 1
Topic: Quality control
AACSB: Written and Oral Communication
Objective: LO 1.11. Identify quality control standards and practices within the accounting profession.

- 45) Which one of the following was NOT an objective of the Institute's Quality Review Program?
- A) reduced need for costly peer reviews B) increased returns to accounting firms
C) enhanced client service D) risk reduction

Answer: A
Diff: 2
Topic: Quality control
AACSB: Ethical Understanding and Reasoning
Objective: LO 1.11. Identify quality control standards and practices within the accounting profession.

46) The main purpose of the *Corporations Act* is to:

- A) develop and promulgate approved accounting standards.
- B) establish appropriate corporate governance mechanisms to promote appropriate decision making by participants and managerial accountability to shareholders.
- C) give legislative backing to the Australian Securities Exchange's Listing Rules.
- D) ensure that auditors conducting financial statement audits are registered.

Answer: B

Diff: 1

Topic: *Corporations Act*

AACSB: Written and Oral Communication

Objective: LO 1.12. Summarise the role of the *Corporations Act 2001* in accounting and auditing.

47) One consequence of CPA Australia's Quality Assurance Program is likely to be:

- A) a reduction in management consulting services provided by public accounting firms.
- B) a provision of information to practitioners that can enhance service quality.
- C) a reluctance by public accounting firms to take on higher risk audit clients.
- D) an increase in disciplinary actions taken.

Answer: B

Diff: 3

Topic: *Corporations Act*

AACSB: Ethical Understanding and Reasoning

Objective: LO 1.12. Summarise the role of the *Corporations Act 2001* in accounting and auditing.

48) The impact of e-commerce on public accountants who perform audits of such entities is that:

- A) audit firms now must have information technology experts as partners in audit firms.
- B) auditors now need to be experts in e-commerce and information technology.
- C) auditors now need a basic knowledge and understanding of e-commerce and information technology.
- D) auditors must decline to accept the audit of such entities and leave non-audit organisations to perform these audits.

Answer: C

Diff: 2

Topic: Impact of e-commerce on public accountants

AACSB: Information Technology

Objective: LO 1.13. Describe the impact of e-commerce on public accountants.

49) Public accounting firms utilise online resources and databases to:

- A) stay current with emerging business issues.
- B) stay current with emerging standard setting issues.
- C) obtain industry data useful for auditing.
- D) all of the above

Answer: D

Diff: 3

Topic: Impact of e-commerce on public accountants

AACSB: Information Technology

Objective: LO 1.13. Describe the impact of e-commerce on public accountants.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

50) **Assurance services** are independent professional services that improve the quality of information for decision makers.

Answer: True False

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

51) An **attestation service** is a type of assurance service in which the public accounting firm issues a written communication that expresses a conclusion about the reliability of a written assertion of another party.

Answer: True False

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

52) Public accounting firms are NOT allowed to provide bookkeeping services for audit clients.

Answer: True False

Explanation:

Diff: 2

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

53) Information risk increases as business organisations become larger.

Answer: True False

Explanation:

Diff: 1

Topic: Causes of information risk.

AACSB: Application of Knowledge

Objective: LO 1.3. List the causes of information risk, and explain how this risk may be reduced.

54) The criteria by which an auditor evaluates the information under audit is the same for every audit.

Answer: True False

Diff: 1

Topic: Nature of auditing

AACSB: Reflective Thinking

Objective: LO 1.4. Describe auditing.

55) The criteria used by an external auditor to evaluate published financial statements are known as generally accepted auditing standards.

Answer: True False

Diff: 1

Topic: Nature of auditing

AACSB: Written and Oral Communication

Objective: LO 1.4. Describe auditing.

- 56) The primary purpose of a performance audit is to evaluate whether an organisation is complying with its operating procedures and methods.

Answer: True False

Diff: 1

Topic: Nature of auditing

AACSB: Written and Oral Communication

Objective: LO 1.4. Describe auditing.

- 57) The primary purpose of a compliance audit is to determine whether the overall financial statements are in compliance with generally accepted accounting principles.

Answer: True False

Explanation:

Diff: 2

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

- 58) Results of compliance audits are typically reported to the Auditor-General.

Answer: True False

Explanation:

Diff: 2

Topic: Types of audits

AACSB: Written and Oral Communication

Objective: LO 1.6. Differentiate the three main types of audits.

- 59) The primary role of the Auditor-General is the enforcement of the federal tax laws as defined by Parliament and interpreted by the courts.

Answer: True False

Explanation:

Diff: 2

Topic: Types of auditors

AACSB: Written and Oral Communication

Objective: LO 1.7. Identify the primary types of auditors.

- 60) Completion of *Client Evaluation* forms is an example of the quality control objective of Ethical Requirements.

Answer: True False

Explanation:

Diff: 2

Topic: Quality control

AACSB: Ethical Understanding and Reasoning

Objective: LO 1.11. Identify quality control standards and practices within the accounting profession.

61) Since 2004 the *Corporations Act* has provided for the issuance of auditing standards by the Auditing and Assurance Standards Board.

Answer: True False

Explanation:

Diff: 2

Topic: *Corporations Act*

AACSB: Written and Oral Communication

Objective: LO 1.12. Summarise the role of the *Corporations Act 2001* in accounting and auditing.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

62) Discuss the various categories of services provided by public accounting firms.

Answer: There are six categories of services provided by public accounting firms:

Three Assurance Service Categories:

- *Financial attestation services*. This category includes audits of historical financial statements and reviews of historical financial statements.
- *Other attestation services*. This category includes reporting on information technology policies and procedures.
- *Other assurance services*. This category includes reporting on information to enhance its relevance for users, such as business performance measurement services.

Three Non-Assurance Service Categories:

- *Tax services*. Tax services include the preparation of corporate and individual federal and state tax returns and tax planning.
- *Management advisory services*. These include advice on information technology requirements.
- *Accounting and bookkeeping services*. These involve preparation of financial statements.

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

63) Discuss four factors that are likely to significantly reduce information risk in the next five to ten years.

Answer: These four factors are likely to significantly reduce information risk in the next five to ten years:

- technological advances
- more companies going online, reducing the risk of investors obtaining outdated information
- new accounting and auditing standards
- auditors finding more efficient and effective audit techniques.

Diff: 3

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

64) Explain what is meant by information risk, and discuss the four causes of this risk.

Answer: Information risk is the possibility that information upon which a business decision is made is inaccurate. There are four causes of information risk:

- remoteness of information
- biases and motives of the provider
- voluminous data
- complex exchange transactions.

Diff: 3

Topic: Causes of information risk

AACSB: Reflective Thinking

Objective: LO 1.3. List the causes of information risk, and explain how this risk may be reduced.

65) Discuss the advantages and disadvantages of making auditing standards more specific.

Answer: Advantages:

- Provides clearer guidance for practitioners in complex areas such as evidence gathering.
- Reduces some difficult decision making.
- Is more defensible in court.

Disadvantages:

- Makes auditing too mechanistic.
- Reduces the ability to make sound professional judgement based on experience.

Diff: 3

Topic: Australian auditing standards

AACSB: Application of Knowledge

Objective: LO 1.10. Use auditing standards as a basis for further study.

66) Why are the auditing standards referred to as the 'force of law' standards?

Answer: On 1 July 2004, the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9) came into effect. CLERP 9 led to amendments to the *Corporations Act 2001*, which resulted in the reconstitution of the AUASB as a statutory body under the direction of the FRC and gave auditing standards the 'force of law' under the *Act*. Section 307A of the *Act* requires auditors to conduct audits and reviews of the financial reports prepared under Part 2M.3 of the *Act*, in accordance with auditing standards.

Diff: 2

Topic: Australian auditing standards

AACSB: Application of Knowledge

Objective: LO 1.10. Use auditing standards as a basis for further study.

67) List the six mandatory elements of a system of quality control for audit engagements listed under ASA 220.

- Answer:
- leadership responsibilities
 - ethical requirements
 - client acceptance and continuance
 - human resources—assignment of engagement teams
 - engagement performance
 - monitoring

Diff: 2

Topic: Quality control

AACSB: Written and Oral Communication

Objective: LO 1.11. Identify quality control standards and practices within the accounting profession.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 68) Two types of attestation services provided by public accounting firms are audits and reviews. Discuss the similarities and differences between these two types of attestation services. Which type provides the most assurance?

Answer: Two primary types of attestation services are audits of historical financial statements and reviews of historical financial statements. While both services involve the accumulation and evaluation of evidence regarding assertions made by management in the company's financial statements, an audit involves a more extensive examination and provides a higher level of assurance about the client's financial statements than a review.

Diff: 1

Topic: Assurance services

AACSB: Written and Oral Communication

Objective: LO 1.1. Describe assurance services, and distinguish audit services from other assurance and non-assurance services provided by public accountants.

- 69) To do an audit, the auditor needs information in a verifiable form and some criteria by which to evaluate that information. (A) What information and criteria would an independent public accounting firm use when auditing a company's financial statements? (B) What information and criteria would a taxation auditor use when auditing that same company's tax return? (C) What information and criteria would an internal auditor use when performing a performance audit to evaluate whether the company's computerised payroll processing system is operating efficiently and effectively?

Answer: (A) The information used by a public accounting firm in a financial statement audit is the financial information in the company's financial statements. The criteria used are applicable accounting standards.

(B) The information used by a taxation auditor is the financial information in the auditee's annual tax return. The criteria are the relevant tax legislation and interpretations.

(C) The information used by an internal auditor when performing a performance audit of the payroll system could include various items such as the number of errors made, costs incurred by the payroll department, and number of payroll records processed each month. The criteria would consist of company standards for departmental efficiency and effectiveness.

Diff: 3

Topic: Nature of auditing

AACSB: Analytical Thinking

Objective: LO 1.4. Describe auditing.

- 70) Discuss the similarities and differences between the roles of accountants and auditors. What additional expertise must an auditor possess beyond that of an accountant?

Answer: The role of accountants is to record, classify, and summarise economic events in a logical manner for the purpose of providing financial information for decision making. To do this, accountants must have a sound understanding of the principles and rules that provide the basis for preparing the financial

information. In addition, accountants are responsible for developing systems to ensure that the entity's economic events are properly recorded on a timely basis and at a reasonable cost. The role of auditors is to determine whether the financial information prepared by accountants properly reflects the economic events that occurred. To do this, the auditor must not only understand the principles and rules that provide the basis for preparing financial information, but must also possess expertise in the accumulation and evaluation of audit evidence. It is this latter expertise that distinguishes auditors from accountants.

Diff: 2

Topic: Distinction between auditing and accounting

AACSB: Analytical Thinking

Objective: LO 1.5. Distinguish between auditing and accounting.

- 71) Discuss the similarities and differences between financial statement audits, performance (operational) audits, and compliance audits. Give an example of each type.

Answer: Financial statement audits, performance (operational) audits, and compliance audits are similar in that each type of audit involves accumulating and evaluating evidence about information to ascertain and report on the degree of correspondence between the information and established criteria. The differences between each type of audit are the information being examined and the criteria used to evaluate the information. An example of a financial statement audit would be the annual audit of IBM Corporation, in which the external auditors examine IBM's financial statements to determine the degree of correspondence between those financial statements and applicable accounting standards. An example of a performance audit would be an internal auditor's evaluation of whether the company's computerised payroll-processing system is operating efficiently and effectively. An example of a compliance audit would be an ATO auditor's examination of an entity's tax return to determine the degree of compliance with tax legislation.

Diff: 2

Topic: Types of audits

AACSB: Application of Knowledge

Objective: LO 1.6. Differentiate the three main types of audits.

- 72) Discuss the similarities and differences between the roles of independent auditors, officers serving the Auditor-General, taxation auditors, and internal auditors.

Answer: The roles of all four types of auditors are similar in that they involve the accumulation and evaluation of evidence about information to ascertain and report on the degree of correspondence between the information and established criteria. The differences in their roles centre around the information audited and the criteria used to evaluate that information. Independent auditors primarily audit companies' financial statements. The Auditor-General's primary responsibility is to perform the audit function for Parliament. Taxation auditors are responsible for the enforcement of federal tax laws. Internal auditors primarily perform performance and compliance audits for their employing company.

Diff: 2

Topic: Types of auditors

AACSB: Written and Oral Communications

Objective: LO 1.7. Identify the primary types of auditors.

73) Discuss the impact of e-commerce on public accountants.

Answer: Almost all businesses rely on information technology to assist in accounting for business transactions. Advances in information technologies and the expansion of the Internet continue to introduce new ways for conducting business electronically, often referred to as **e-commerce**. As these developments continue, businesses will expand their reliance on those technologies.

To help public accountants understand emerging technology issues, the AICPA Top Technology Task Force annually releases its top 10 list of technology issues, applications, and emerging technologies destined to have a significant impact on business in the year ahead. Information security has been one of the top issues for the past five years. These two issues made their first appearance on the 2008 list, demonstrating the rate of continuing change in technologies:

1. business process improvement, workflow, and process exceptions alerts
2. mobile and remote knowledge management.

The rapid development of new methods of conducting business and processing information affects all aspects of assurance services. Public accountants who perform audits or provide other assurance services about information generated with these emerging technologies need a basic knowledge and understanding of information technology and e-commerce. Although public accountants do not need to be experts on the detailed complexities of these systems, they need to understand how key technologies are transforming all aspects of business and affecting the services public accountants provide. Public accountants also need to understand how information technology in hardware, software, communications, and the Internet can be used to provide assurance services. Knowledge about e-commerce technologies is necessary to identify and respond to risks in information generated by these emerging technologies.

Like all industries, public accounting firms are using the Internet to market their services. Firms of all sizes use the Internet to highlight such things as office locations or affiliations, and service lines and industry specialisations, and to provide reference tools and materials to existing and potential clients. Firm websites feature news on and insights into business issues, such as updates on changes in tax laws and interactive forms to determine which type of retirement account to choose. Firm websites also feature online software tools and databases to subscribers who pay a fee. For example, Ernst & Young sells its *Accounting and Auditing Tool Kit* to subscribers through its Ernst & Young *Online* website. PricewaterhouseCoopers, LLP, through an alliance with Watchfire, offers a privacy management software tool, *WatchfireWebCPO*, that provides protection to online information. Public accounting firms also use the Internet to connect their global professional staff. Firm personnel from around the world can contribute services to a client on a timely basis without having to be physically present at the client's location. Electronic communication among firm personnel is especially advantageous for firms that serve multinational clients with operations around the globe. For example, personnel in New York, Tokyo, and London who have expertise in local regulations and business cultures can serve local clients and branches of international clients with operations in those cities, and can also communicate with engagement team personnel serving those clients in other locations.

Public accounting firms are also taking advantage of online resources and databases that can be accessed through the Internet. These resources are useful to public accountants for staying current on emerging business and standards-setting issues. Databases provide extensive industry-specific information and coverage of companies that public accountants use on a subscription basis to stay current on industry developments and to obtain industry data useful for auditing and consulting.

Diff: 3

Topic: Impact of e-commerce on public accountants

AACSB: Information Technology

Objective: LO 1.13. Describe the impact of e-commerce on public accountants.