



ASSURANCE

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There are 50 questions in this assessment worth equal marks. The pass mark is 55%.

You will have 90 minutes to complete the assessment which includes any review period.

IMPORTANT

Question papers contain confidential information and must NOT be removed from the examination hall.

You MUST submit this question paper and enter your student number in this box.

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Instructions for recording your answers

1. Record your responses only on the answer sheet provided.
2. Use an HB pencil throughout.
3. Enter **0000** for the centre number and **001** for the test number.
4. Enter your Candidate Number and Test Date into the appropriate spaces on your answer sheet.
5. a. For each of the **50** items in this paper there are up to six options; A, B, C, D, E, F. Choose the response(s) that appear(s) to be the best, and indicate your choice(s) on the answer sheet as (a) **horizontal** line(s) in the box(es) with the corresponding number(s) and letter(s). For example, if you decide that the answer to item 1 is A, mark the answer sheet as shown below.

1  ☐B ☐C ☐D ☐E ☐F
2 ☐A ☐B ☐C ☐D ☐E ☐F
3 ☐A ☐B ☐C ☐D ☐E ☐F
4 ☐A ☐B ☐C ☐D ☐E ☐F
5 ☐A ☐B ☐C ☐D ☐E ☐F

- b. Choose one or more responses for each item, as appropriate to the item. Errors should be erased carefully and the new choice marked. Make **NO** other marks on the answer sheet.
6. **ATTEMPT ALL ITEMS**; you will score equally for each correct item. There will be no deductions for incorrect items or omissions.
7. Do not fold or crease the answer sheet.

1. An assurance engagement involves the evaluation or measurement of subject matter, which has been prepared by the responsible party, against criteria.

The management of Beagle plc has prepared interim financial information, in accordance with international financial reporting standards (IFRS). This information has been subjected to an independent review by the auditor of Beagle plc.

Which **ONE** of the following statements is true?

- A The subject matter is the IFRS and the responsible party is the auditor of Beagle plc
- B The subject matter is the interim financial information and the responsible party is the management of Beagle plc
- C The criteria are the IFRS and the responsible party is the auditor of Beagle plc
- D The criteria are the interim financial information and the responsible party is the management of Beagle plc

2. There are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. For each of the following statements in respect of assurance engagements select whether it is true or false.

The objective of a reasonable assurance engagement is a reduction in assurance risk to an acceptably low level in the circumstances

A True

B False

An examination of and provision of an assurance report on cash flow and profit forecasts, by an independent accountant, is an example of a limited assurance engagement

C True

D False

A limited assurance engagement provides a high level of assurance

E True

F False

3. An audit carried out under International Standards on Auditing is conducted on the premise that the auditor and the management of the audited entity have respective responsibilities.

For each of the following, identify whether it is the responsibility of the auditor or the responsibility of the management of the audited entity.

Preparation of the financial statements in accordance with the applicable financial reporting framework

- A Management's responsibility
- B Auditor's responsibility

Obtaining sufficient appropriate evidence that the financial statements are free from material misstatement

- C Management's responsibility
- D Auditor's responsibility

4. Which **ONE** of the following statements is true in respect of the level of assurance provided by a review of and report on financial statements by an independent accountant?

- A Absolute assurance expressed negatively
- B Reasonable assurance expressed positively
- C Moderate assurance expressed positively
- D Limited assurance expressed negatively

5. For each of the following statements in respect of the expectations gap select whether it is true or false.

The public's belief that auditors should detect all fraud is an aspect of the expectations gap

- A True
- B False

The reference to key audit matters in the audit report, such as the assessment of risks of material misstatement and application of materiality, is a means of closing the expectations gap

- C True
- D False

6. Certain information must be included and other information may be included in an engagement letter in respect of an audit conducted under International Standards on Auditing.

For each of the following pieces of information, select whether it must be included or maybe included in the engagement letter.

Reference to the expected form and content of reports to be issued by the auditor

- A Must be included
- B May be included

Arrangements concerning the involvement of the internal audit function

- C Must be included
- D May be included

The basis on which the audit fees are computed

- E Must be included
- F May be included

7. For each of the following statements in respect of materiality, select whether it is true or false.

Performance materiality should be set at a level below the level of materiality for the financial statements as a whole

A True

B False

The materiality threshold set at the planning stage of the audit should be increased as audit risk increases

C True

D False

8. Which **ONE** of the following statements in respect of the audit risk model is false?

A Audit risk is a function of the risks of material misstatement and detection risk

B The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk

C The greater the risks of material misstatement, the lower the detection risk that can be accepted by the auditor

D Detection risk may be lowered by reducing the sample sizes used in audit testing

9. In the course of their audit, auditors consider factors which might indicate that the risks of material misstatement are lower or higher than normal. For each of the following audited entities, indicate whether the factors described would indicate risks of material misstatement which are higher or lower than normal.

Terrier Ltd, an entity which has embarked on a new overseas venture which will involve accounting for foreign currency transactions for the first time

A Higher

B Lower

Hound Ltd, an entity which operates in an industry sector which is subject to rapid technological change

C Higher

D Lower

Canine Ltd, an entity which has a history of remedying deficiencies in internal controls that have been identified by internal and external auditors

E Higher

F Lower

10. ISA 200 requires an auditor to plan and perform an audit with professional scepticism recognising that circumstances may exist that could cause the financial statements to be materially misstated.

Which **TWO** of the following factors would require the auditor to exercise a greater degree of professional scepticism during the course of an audit?

- A Management is willing to provide written representations on matters of judgement affecting the financial statements
- B Management's annual bonus is based on the level of profits achieved by the audited entity
- C Management has demanded that the audit be completed within a tight deadline
- D Management has demonstrated by its actions that it has strong ethical values

11. For each of the following statements relating to internal control, select whether it is true or false.

One of the objectives of internal control is to reduce the risk of the audited entity failing to comply with applicable laws and regulations

- A True
- B False

Due to the inherent limitations of internal controls, control risk can never be fully eliminated

- C True
- D False

12. For each of the following factors select whether it is likely to lead to the auditor assessing that there is an increase or a decrease in control risk.

The audited entity has mechanisms in place for monitoring adherence to and reporting departures from company policy

- A Increase
- B Decrease

The audited entity has introduced a new computerised accounting system without a parallel run of the old and new systems

- C Increase
- D Decrease

Management of the audited entity has a policy of implementing segregation of duties

- E Increase
- F Decrease

13. For each of the following control procedures, select whether it is PRIMARILY a preventative or a detective control.

Access to the audited entity's warehouse is restricted to authorised personnel

- A Preventative
- B Detective

Preparation of bank reconciliations

- C Preventative
- D Detective

14. For each of the following statements in respect of audit committees select whether it is true or false.

Audit committees should consist of executive and non-executive directors of an audited entity

A True

B False

One of the roles of an audit committee is to review reports produced by the internal audit function

C True

D False

15. Internal controls comprise a number of components including the control environment, the entity's risk assessment process, the information system, control activities and monitoring of controls. For each of the following select the component it illustrates.

The attitudes, awareness and actions of management concerning the entity's internal control and its importance to the entity

A Entity's risk assessment process

B Control environment

C Monitoring of controls

A process to assess the effectiveness of internal control performance over time, including the design and operation of controls and taking the necessary corrective actions

D Entity's risk assessment process

E Control environment

F Monitoring of controls

16. The scope and objectives of the internal audit function vary widely and depend on the size and structure of the entity and the requirements of its management.

Which **ONE** of the following functions could internal audit perform and still operate effectively?

- A Evaluate the efficiency of management
- B Authorise transactions
- C Supervise inventory counts
- D Record transactions

17. Control activities may be categorised as policies and procedures that pertain to performance reviews, information processing or physical controls. For each of the following examples select the type of control activity which it illustrates.

Comparison of the results of inventory counts with amounts recorded in the accounting records

- A Performance review
- B Information processing
- C Physical

Manual follow up of exception reports

- D Performance review
- E Information processing
- F Physical

18. Which **ONE** of the following is an inherent limitation of internal controls?

- A Audit testing is undertaken on a sample basis
- B Most audit evidence is persuasive not conclusive
- C Failure by employees to undertake procedures due to time pressure
- D The financial statements include items which are judgemental in nature

19. Which **TWO** of the following control procedures will identify whether there are fictitious names on an audited entity's payroll?

- A Comparison of independently maintained HR records to names on the payroll
- B Comparison of names on the payroll to independently maintained HR records
- C Matching authorised time sheets to payroll details
- D Matching payroll details to authorised timesheets

20. For each of the following internal control procedures select the risk mitigated by that procedure.

Periodic physical counts of inventory and reconciliation with recorded amounts

- A Purchasing unnecessary goods
- B Theft of inventory
- C Stockouts

Daily printout of inventory items which have reached their minimum reorder level

- D Purchasing unnecessary goods
- E Theft of inventory
- F Stockouts

21. The following describes part of the sales and receivables system in an audited entity. For each process described, select whether it represents a strength or a deficiency.

Prior to accepting a customer's order, the sales order clerk checks that fulfilment of the order will not take the customer over its credit limit

- A Strength
- B Deficiency

The computerised sales order processing system generates multi-part order/despatch documentation which is sequentially numbered

- C Strength
- D Deficiency

The receivables ledger clerk is responsible for posting invoices, customer receipts and credit notes to the receivables ledger and sending statements to customers

- E Strength
- F Deficiency

22. For each of the following internal control deficiencies, select the most likely consequence that might arise because of that deficiency.

The payables ledger clerk is permitted to amend standing data on the payables files

- A Purchasing inferior goods
- B Paying fictitious suppliers

Purchase orders are not independently authorised prior to placing the order

- C Paying for goods not received
- D Paying for goods not required

23. For each of the following statements in respect of methods used to record internal control systems, select whether it is true or false.

An internal control questionnaire consists of a list of questions designed to cover key control points in a transaction cycle, usually with a “yes” answer denoting a strength and a “no” answer denoting a deficiency

- A True
- B False

In more complex accounting systems a flowchart is more preferable to narrative notes because it is easier to follow document flow through the system

- C True
- D False

24. For each of the following statements in respect of audit documentation select whether it is true or false.

Documentation relating to an audit of financial statements should be destroyed five years after the date of the auditor’s report on those financial statements

- A True
- B False

If an auditor judges it necessary to depart from a relevant requirement of an International Standard on Auditing, the auditor must document the reasons for the departure

- C True
- D False

25. Assurance providers use analytical procedures, tests of control and tests of detail to gather audit evidence. For each of the following procedures, select whether it is an analytical procedure, a test of control or a test of detail.

Inspection of documents for signature evidencing review of such documents

- A Analytical procedure
- B Test of control
- C Test of detail

Consideration of the volume of inventory in relation to the capacity of the audited entity's storage facilities

- D Analytical procedure
- E Test of control
- F Test of detail

26. For each of the following procedures select the type of computer-assisted audit technique (CAAT) which would be used to perform that procedure.

Comparison of inventory files at successive year ends to identify significant changes in inventory

- A Audit software
- B Test data

Input of sales discounts in excess of pre-set percentage limits to check that the system flags up sales invoices with such high levels of discount

- C Audit software
- D Test data

27. For each of the following descriptions relating to sample selection select whether it describes random selection, haphazard selection or block selection.

Selecting items on a probability basis where every item in the population has an equal chance of selection

- A Random
- B Haphazard
- C Block

The selection of all sales invoices processed in a particular month

- D Random
- E Haphazard
- F Block

28. All methods of obtaining audit evidence have limitations which affect the quality of the evidence. For each of the following sources of evidence select the limitation which applies to it.

Observation of procedures undertaken by the audited entity's employees

- A Limited to the time it takes place
- B Limited by the reliability of the accounting system

Comparison of current year's figures with previous year's figures

- C Limited to the time it takes place
- D Limited by the reliability of the accounting system

29. Which **THREE** of the following assertions is the auditor concerned with when testing cash at bank at the year end?
- A Completeness
 - B Existence
 - C Rights and obligations
 - D Occurrence
30. For each of the following substantive procedures undertaken on transactions and balances, select the financial statement assertion it addresses.
- Inspection of the date on a post year-end goods despatched record
- A Cut-off
 - B Occurrence
- Tracing pre year-end goods received records to invoice entries in the payables ledger
- C Completeness
 - D Existence
- Inspection of the terms and conditions of a loan agreement
- E Rights and obligations
 - F Valuation

31. Which **TWO** of the following circumstances would reduce the reliability of analytical procedures?

- A Data relating to the audited entity's industry sector is available
- B Detailed segmental information relating to the audited entity is available
- C The audited entity's budgeted figures have proved to be optimistic in the past
- D Significant deficiencies in the audited entity's internal control system have been identified

32. The following statements relate to the types of confirmations which may be sought from receivables. For each statement select whether it is true or false.

The positive method of confirmation provides more persuasive audit evidence than the negative method of confirmation

- A True
- B False

The negative method of confirmation should not be used if the auditor expects a high exception rate

- C True
- D False

33. Which **ONE** of the following procedures provides the most reliable evidence on the recoverability of receivables at the year end?

- A Inspection of pre year-end sales invoices and corresponding despatch records
- B Inspection of post year-end bank statements for receipts from customers
- C Direct confirmation of amounts outstanding at the year end
- D Review of aged receivables report

34. For each of the following procedures select whether the auditor will be testing for overstatement, for understatement or for both overstatement and understatement.

Vouching invoice entries in the payables ledger to suppliers' invoices

- A Overstatement
- B Understatement
- C Both overstatement and understatement

Estimating rental income by multiplying the number of properties let by the average income per property

- D Overstatement
- E Understatement
- F Both overstatement and understatement

35. Boatco Ltd is a small company specialising in the construction of luxury yachts costing in excess of £1 million each. The company sells between 10 and 15 yachts a year and employs one person in its accounting function.

Which **ONE** of the following audit strategies is the most appropriate for the audit of Boatco Ltd?

- A Tests of control only
- B Substantive procedures only
- C Tests of control with full substantive procedures
- D Tests of control with reduced substantive procedures

36. The gross profit margin at Scorpio Ltd, a manufacturing company, has decreased compared to the previous year.

Which **TWO** of the following may explain this decrease?

- A Overstatement of current year's sales
- B Understatement of current year's sales
- C Overstatement of current year's closing work in progress
- D Understatement of current year's closing work in progress

37. The results of cut-off testing undertaken in respect of receivables, payables and inventory at Dahlia Ltd are set out below. For each result select the appropriate conclusion that should be drawn in respect of cut-off procedures at Dahlia Ltd.

Goods despatched by Dahlia Ltd on the last day of the reporting period were included in year-end inventory and in year-end receivables

- A Appropriate cut-off procedures
- B Inappropriate cut-off procedures

Goods returned to a supplier by Dahlia Ltd on the last day of the reporting period were excluded from year-end inventory and from year-end trade payables

- C Appropriate cut-off procedures
- D Inappropriate cut-off procedures

38. Which **THREE** of the following statements are true in respect of sampling techniques?

- A Tolerable misstatement is the maximum monetary amount of error acceptable to the auditor
- B Random selection of items for testing is appropriate when using statistical sampling
- C Sampling risk is the risk of misinterpretation of audit evidence
- D An increase in the size of the population would have a negligible effect on sample size

39. For each of the following statements select whether it would be included or not included in a letter of representation from the management of an audited entity to the auditor of that entity.

Management has provided the auditor with all relevant information

- A Included
- B Not included

Management believes the effects of uncorrected misstatements are immaterial, individually or in aggregate, to the financial statements as a whole

- C Included
- D Not included

Management is aware of the limitations of internal controls

- E Included
- F Not included

40. During the audit of Capricorn Ltd the following transactions were selected by a junior member of the audit team.

Transaction 1: the sale of one of the audited entity's motor vehicles, at market value, to the managing director's son

Transaction 2: the purchase of a designer watch as a gift for an overseas government official

Which **ONE** of the following should be referred to a senior colleague?

- A Transaction 1 only
- B Transaction 2 only
- C Both transactions
- D Neither transaction

41. Codes of Ethics may be rules-based or principles-based. For each of the following statements in respect of Codes of Ethics, select whether it is true or false.

A principles-based code can adapt more easily to a rapidly changing environment than a rules-based code

- A True
- B False

The ICAEW Code of Ethics is a rules-based code

- C True
- D False

42. Which **TWO** of the following are two of the stated fundamental principles underlying the ICAEW Code of Ethics?

- A Professional rigour
- B Professional behaviour
- C Integrity
- D Scepticism

43. There are a number of concepts which underpin the work of an assurance provider. For each of the descriptions below select the concept to which it relates.

An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatements due to error or fraud, and a critical assessment of audit evidence

- A Professional behaviour
- B Professional judgement
- C Professional scepticism

The application of relevant training, knowledge and experience within the context provided by auditing and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement

- D Professional behaviour
- E Professional judgement
- F Professional scepticism

44. For each of the following members of an audit firm, select whether they may be included in or should be excluded from the audit team responsible for the audit of the financial statements of Scorpio plc, a listed company, for the year ending 30 June 2015.

Helen Lee has been the manager of the audit of Scorpio plc for the two years ended 30 June 2014 and has been invited by the directors of Scorpio plc to replace the current finance director when he retires on 31 December 2015.

- A May be included
- B Should be excluded

Ali Wong has been the engagement partner responsible for the audit of Scorpio plc's financial statements for the four years ended 30 June 2014

- C May be included
- D Should be excluded

45. The following situations have arisen at Neptune LLP in respect of non-audit services at two audit clients.

The management of Saturn Ltd, an unlisted company, has requested that a member of the audit team assist with the preparation of the annual financial statements.

The management of Pluto Ltd has requested that Neptune LLP advises on the acquisition of an off-the-shelf accounting package. The management of Pluto Ltd will make the final decision in respect of the package to be acquired.

Which **ONE** of the following is the most appropriate action for Neptune LLP to take?

- A Accept the work at Saturn Ltd and reject the work at Pluto Ltd
- B Reject the work at Saturn Ltd and accept the work at Pluto Ltd
- C Accept the work at both Saturn Ltd and Pluto Ltd
- D Reject the work at both Saturn Ltd and Pluto Ltd

46. A professional accountant should take reasonable steps to identify circumstances that could pose a conflict of interest. For each of the following situations, select whether or not it poses a conflict of interest.

Aster LLP acts as external auditor to Buttercup Ltd and Crocus Ltd. Buttercup Ltd and Crocus Ltd plan to tender for the same contract and each company has requested that Aster LLP provides it with advice on tendering for the contract.

- A Conflict of interest
- B Not a conflict of interest

Aster LLP acts as external auditor to Daffodil Ltd and Poppy Ltd, companies operating in different market sectors. Iris Clay is the managing director and sole shareholder of Daffodil Ltd and her daughter, Rose Clay, is the managing director and sole shareholder of Poppy Ltd.

- C Conflict of interest
- D Not a conflict of interest

47. There are certain circumstances in which a professional accountant must or may disclose confidential information relating to an existing or former client. Some circumstances require the client's permission whereas others do not.

For each of the following circumstances, select whether the professional accountant requires the client's permission or does not require the client's permission.

The professional accountant suspects that a client has bribed a government official in order to facilitate the progress of a contract

- A Client's permission required
- B Client's permission not required

The professional accountant has received a request from a newly-appointed external auditor to access his audit working papers relating to a company which was previously a client

- C Client's permission required
- D Client's permission not required

The professional accountant is subject to a quality review by a professional regulator which requires access to clients' files

- E Client's permission required
- F Client's permission not required

48. The following situations have arisen at Tulip LLP in respect of two external audit clients.

For each situation, select the type of threat to the firm's objectivity that it represents.

The management of Petunia Ltd has requested that Tulip LLP provides internal audit services for a period of three years, in addition to the external audit services

- A Familiarity
- B Self-review

The management of Begonia Ltd, a company which operates luxury health spas, has offered the members of the audit team free membership of a spa of their choice.

- C Familiarity
- D Self-interest

49. Which **TWO** of the following situations are likely to give rise to an advocacy threat to independence and objectivity?

- A An engagement to underwrite and promote the shares of a company which is an audit client
- B Acting as an expert witness on behalf of an audit client in litigation proceedings
- C Provision of advice on bonus arrangements for the directors of an audit client
- D Preparation of the financial statements for an audit client

50. For each of the following situations, which have arisen in respect of audit clients at Camelia LLP, select the most appropriate safeguard or state that there are no safeguards that could reduce the threat to an acceptable level.

The management of Hebe Ltd has requested that Camelia LLP undertakes an examination of and provides an assurance report on profit and cash flow forecasts to be submitted to Hebe Ltd's bank in support of a loan application. Hebe Ltd's management has stated that the fee for this work will be on a contingent basis ie the fee is only payable if the loan application is successful.

- A Engagement quality control review
- B Discuss the issue with those charged with governance
- C No safeguards possible

Acer Ltd, an unlisted company, has requested that Camelia LLP compute the tax figures to be included in the financial statements of Acer Ltd.

- D Information barriers
- E Separate personnel
- F No safeguards possible

ITEM 50 COMPLETES THIS TEST

