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MIDTERM EXAMINATION
Spring 2009
~~ACC311 Fundamentals of Auditing (Session 1)~~

Question No: 1 (Marks: 1) - Please choose one

Which of the following is a primary objective of an operational audit?

- ▶ Past protection provided by existing internal control
- ▶ The verification that a company's financial report is fairly presented
- ▶ The accuracy of the data reflected in management's financial records
- ▶ Future improvements to accomplish the goals of management

Question No: 2 (Marks: 1) - Please choose one

Which of the following auditors especially focus upon exceptions, oddities, accounting irregularities, patterns of conduct, and not on errors or omissions?

- ▶ Financial auditors
- ▶ Fraud auditors
- ▶ External auditors
- ▶ Internal auditors

Question No: 3 (Marks: 1) - Please choose one

Which of the following 'audit process stages' shall generally be conducted at the end in relation to the others?

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- ▶ Auditing business processes and related accounts
- ▶ Preliminary assessment of materiality and audit risk
- ▶ Preliminary analytical procedures e.g. ratio analysis
- ▶ Consideration of internal control systems

Question No: 4 (Marks: 1) - Please choose one

Which of the following primary assertion is satisfied when an auditor ensures that there is no false transaction recorded and all recorded transactions have actually taken place?

- ▶ Occurrence
- ▶ Completeness
- ▶ Existence
- ▶ Rights and obligations

Question No: 5 (Marks: 1) - Please choose one

Which one of the following statements is **NOT** true about the internal control system of a company?

- ▶ Internal control is affected by people working in an organization
- ▶ Internal control is a process of bringing accuracy and improvements in the systems
- ▶ Internal control system is expected to provide absolute assurance about the performance of a company

Internal control is geared to achieve objectives of financial reporting, compliance and operations



Question No: 6 (Marks: 1) - Please choose one

Which one of the following meetings is considered as a 'meeting of members'?

General meeting



Board meeting



Management meeting



Employees meeting



Question No: 7 (Marks: 1) - Please choose one

The first auditors of a company are required to hold office till which one of the following events? (Companies Ordinance, 1984)

Board meeting



Completion of one year



First annual general meeting-



Extra ordinary general meeting



Question No: 8 (Marks: 1) - Please choose one

A sports goods manufacturing company has started its operations in year 2003 as a private limited company. After five years of conducting successful business, it has incorporated as a listed

company in year 2008. Now, the company is required to hire its first auditors, but neither the directors nor the members could appoint the auditors within four months since the incorporation of the company.

Select among the following authorities who can appoint the auditors in this situation? (*Companies Ordinance, 1984*)

Company secretary

- ▶ Company registrar
- ▶ Securities and Exchange Commission
- ▶ Institute of Chartered Accountants of Pakistan
- ▶

Question No: 9 (Marks: 1) - Please choose one

Which one of the following actions shall give rise to tort, while performing audit of a company?

- ▶ Negligence
- ▶ Negligent misconduct
- ▶ Assault
- ▶ All of the given options
- ▶

Question No: 10 (Marks: 1) - Please choose one

Suppose that a private limited company has just been incorporated as public limited company. After how much time the company is required to present its first annual accounts before the Annual General Meeting (AGM)? (*Companies Ordinance, 1984*)

Within 12 months

- ▶ Within 13 months
- ▶ Within 16 months
- ▶ Within 18 months
- ▶

Question No: 11 (Marks: 1) - Please choose one

A listed company has just hired the auditors who have been involved in using ratio analysis, trend analysis, and common size analysis of financial as well as non financial information pertaining to the entity for about a month. In your opinion, auditors should be considered at which one of the following stages of risk assessment?

- ▶ Inspection of the entity and others within the entity
- ▶ Inquiries of management and others within the entity
- ▶ Observation of the entity's procedures and all within the entity
- ▶ Using analytical tools of risk assessment

Question No: 12 (Marks: 1) - Please choose one

Suppose an auditor makes the assessment that there is a low level of control risk and inherent risk for a client, what would you expect the auditor to do in this situation?

- ▶ Perform no substantive procedures
- ▶ Perform no control tests because of the low level of control risk
- ▶ Perform a relatively small number of substantive procedures
- ▶

- ▶ Re-evaluate his or her acceptable level of audit risk

Question No: 13 (Marks: 1) - Please choose one

During the audit, an independent auditor identifies the existence of a reportable condition in the client's system of internal controls and orally communicates this finding to the client's senior management and audit committee. In your opinion, the auditor should perform which one of the following actions instead of reporting to management in this way?

- ▶ Consider the reportable condition a scope limitation and therefore disclaim an opinion
- ▶ Document the matter in the working papers and consider the effects of the condition on the audit
- ▶ Suspend all audit activities pending directions from the client's audit committee
- ▶ Withdraw from the engagement

Question No: 14 (Marks: 1) - Please choose one

Which one of the following statement *best* describes the inherent risk in auditing?

- ▶ Auditors fail to discover a material misstatement in the course of their audit and do not modify their audit opinion
- ▶ A company's internal control fails to identify a material misstatement in a timely fashion
- ▶ Auditing procedures fail to find a material misstatement
- ▶ The possibility that an account or class of transactions contains material misstatements irrespective of the effects of the internal controls

Question No: 15 (Marks: 1) - Please choose one

While considering the internal control system, the auditor is basically concerned that the system provides reasonable assurance about which one of the following?

- That the management can not override the system
- ▶ Operational efficiency has been achieved according to management plans
 - ▶ Errors have been prevented or detected
 - ▶ Controls have not been circumvented by collusion
 - ▶

Question No: 16 (Marks: 1) - Please choose one

Which of the following is one of the most fundamental and effective internal controls?

- Increased use of computers for recording accounting transactions
- ▶ Increased reliance on internal auditors to monitor accounting systems
 - ▶ Segregation of incompatible duties across several people
 - ▶ Having internal auditors report only to the Board of Directors
 - ▶

Question No: 17 (Marks: 1) - Please choose one

An audit firm audited a Leather Manufacturing company and presented its report addressed to the management. They found significant material misstatements in the company's internal controls system. They strongly recommended that there should be sufficient controls in existence to ensure management can effectively control the business operations. In your opinion, auditors are emphasizing on which one of the following categories of SOAP MAPS?

- Authorization
- ▶

Management and Monitoring

- ▶ Arithmetic and Accounting
- ▶ Segregation of duties
- ▶

Question No: 18 (Marks: 1) - Please choose one

Which one of the following statements *best* describes the term 'Observation' that is performed during the audit testing stage?

Reviewing or examining records, documents or tangible assets

- ▶ Looking at an operation or procedure being performed by others with a view to determine the manner of its performance
- ▶ Examining that an operating system and/or applications are configured appropriately to the companies needs and lockdown requirements
- ▶ Seeking relevant information from knowledgeable persons inside or outside the enterprise, whether formally or informally

Question No: 19 (Marks: 1) - Please choose one

In which one of the following situations auditors are required to perform tests of controls?

_____ When the internal controls are operating inefficiently _____

When substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level

- ▶
- ▶

▶ When substantive procedures alone provide sufficient appropriate audit evidence at the assertion level

▶ When analytical procedures alone do not provide sufficient appropriate audit evidence at the assertion level

Question No: 20 (Marks: 1) - Please choose one

Which one of the following elements is **NOT** related to audit quality?

▶ Due diligence

▶ Independence

▶ Audit fees

▶ Audit competence

Question No: 21 (Marks: 1) - Please choose one

One of the main objectives of performing analytical review procedures is to obtain evidence in the planning phase of the audit that helps to identify which one of the followings?

▶ Transactions that have not been properly authorized

▶ Illegal acts undetected as a result of poor internal controls

▶ Inefficient operational activities

▶ Unusual changes that may signal possible account misstatements

Question No: 22 (Marks: 1) - Please choose one

An audit firm audited a company and presented its report addressed to the management. They found discrepancies in the Financial System of the company and strongly recommended the company to incorporate adequate controls to ensure the completeness and accuracy of its financial records. In your opinion, auditors are emphasizing on which one of the following categories of SOAP MAPS?

Authorization

- ▶ Management and Monitoring
- ▶ Arithmetic and Accounting
- ▶ Segregation of duties
- ▶

Question No: 23 (Marks: 1) - Please choose one

An audit firm audited a company and presented its report addressed to the management. They found significant material misstatements in the company's records and its operations and strongly recommended the company to define a proper allotment of responsibilities to reduce the opportunity for fraud and manipulation. In your opinion, auditors are emphasizing on which one of the following categories of SOAP MAPS?

Arithmetic and Accounting

- ▶
- ▶ Segregation of duties

Authorization

- ▶
- ▶ Management and Monitoring
- ▶

Question No: 24 (Marks: 1) - Please choose one

Which one of the following descriptions *best* define the term 'Flowchart' used in evaluating internal control system of the entities?

- ▶ Entity relationship diagram of an accounting system
- ▶ Diagrammatical representation of an accounting system
- ▶ Show how data move between different entities
- ▶ Narrative description of the audit files

Question No: 25 (Marks: 1) - Please choose one

Which one of the following is the possible application of *Arithmetic and Accounting* category of internal control?

- ▶ A supervisor or manager reviews and checks the work of a subordinate in order to check the work quality
- ▶ Using of standard accounting procedures e.g. control accounts, reconciliation procedures, arithmetic checks on accounting records
- ▶ Authorization of purchases, cash and bank payments, sale of non-current assets, sales to customers on credit, bad debt write offs
- ▶ Lines of authority within an organization make it clear which individuals are responsible for decisions and transactions

Question No: 26 (Marks: 1) - Please choose one

In auditing, Flowcharts have the following disadvantages **EXCEPT:**

- ▶ When the program logic is very complex the flow chart may become difficult to comprehend.
- ▶ Any modifications in the process may require the creation of a new flow chart.

Generating a flowchart is a tedious procedure, as flowchart symbols cannot be typed.



Force the auditors to understand how the company controls operations



Question No: 27 (Marks: 1) - Please choose one

A public limited company hires First statutory auditors who take extensive information about business operations for understanding the entity's environment. For this, they asked for company's records and internal control manuals. They also visited the plant and documented the information about its activities. In your opinion, auditors should be considered at which one of the following stages of risk assessment in this case?



Inspection of the entity and others within the entity



Inquiries of management and others within the entity



Observation of the entity's procedures and all within the entity



Using analytical tools of risk assessment



Question No: 28 (Marks: 1) - Please choose one

When the Cashier of a bank is also appointed to maintain the books of accounts then which one of the following internal control principles is violated?



Rotating employee duties



Establishment of responsibility



Documentation procedures



Segregation of duties



Question No: 29 (Marks: 1) - Please choose one

Which of the following may NOT be considered as the essential feature of Auditing?

- Auditing is the examination of financial statements of a firm
- ▶ Auditing includes preparation of financial statements of a firm
- ▶ The end result of an audit is an opinion to assist the users of the financial statements
- ▶ An audit should be independent

Question No: 30 (Marks: 1) - Please choose one

What is the primary difference between an operational audit and a compliance audit?

Operational audit focuses on business efficiencies and effectiveness, while compliance audit focuses on whether laws and other requirements are being followed

- ▶ Operational audit focuses on reliability of the financial statements, while compliance audit focuses on whether laws and other requirements are being followed
- ▶ Operational audit focuses on business growth prospects, while a compliance audit focuses on reliability of the financial statements
- ▶ Operational audit focuses on business size and potential to grow, while compliance audit focuses on reliability of accounting records

Question No: 31 (Marks: 5)

Mr.Kamran is a partner of an audit firm. He bought shares of a company for which his firm is also conducting audit. However, he sold out all these shares within thirty days and immediately informed the company secretary about the whole transaction. Is the company secretary required to take any step under the Companies Law, 1984?

Question No: 32 (Marks: 10)

Why books of accounts are required to be kept by companies? Discuss the types of books of accounts with examples.

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