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| 1. Which of the following best describes what an auditor is doing before providing an opinion on a set of financial statements?     |  |  |  | | --- | --- | --- | |  | a. | An auditor is taking the source documents and is recreating the financial statements to prove they are accurate. | |  | b. | An auditor is trying to collect sufficient appropriate evidence to prove the financial statements are true and fair. | |  | c. | An auditor is assessing the liability they have to shareholders for losses suffered from inaccurate financial statements. | |  | d. | An auditor is checking that the accountants preparing the financial statements have followed their advice correctly on material matters. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 2. Ideally an auditor wants what level of assurance before giving their opinion on a set of financial statements?     |  |  |  | | --- | --- | --- | |  | a. | Reasonable | |  | b. | Absolute | |  | c. | Limited | |  | d. | Material |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 3. Which of the following people described would be in the best position to audit a set of financial statements?   |  |  |  | | --- | --- | --- | |  | a. | An accountant who prepared the financial statements because they understand the accounts best. | |  | b. | A senior manager in the organization whose accounts are being audited because they understand the environment in which the organization operates. | |  | c. | An independent professional with accounting knowledge because they can remain unbiased when reviewing the financial statements. | |  | d. | An owner of the organization who is not involved in its day to day operations because they are most interested in ensuring the information is accurate. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 4. Which sort of attitude towards management is generally best for an auditor to adopt?     |  |  |  | | --- | --- | --- | |  | a. | Professional scepticism | |  | b. | Suspicion | |  | c. | Collegiality | |  | d. | Friendship |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 5. Which of the following statements is NOT correct when considering ‘true and fair’ from an auditing perspective?     |  |  |  | | --- | --- | --- | |  | a. | True and fair financial statements should not mislead the reader. | |  | b. | True and fair financial statements should be able to be relied upon to make decisions. | |  | c. | The income statement, balance sheet and cash flow statement are not on their own sufficient to provide a true and fair view. | |  | d. | To be true and fair financial statements must be completely accurate. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 6. One justification of audit is that it makes financial statements more reliable and,because it is more reliable, it is more useful to decision makers. This is an example of:     |  |  |  | | --- | --- | --- | |  | a. | The agency theory hypothesis | |  | b. | The information hypothesis | |  | c. | The true and fair view hypothesis | |  | d. | The insurance hypothesis |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 7. Which of the following is NOT an assumption of agency theory?     |  |  |  | | --- | --- | --- | |  | a. | Both owners and managers are trying to maximize their own wealth | |  | b. | The financial report provides a mechanism for owners to monitor managers | |  | c. | The appointment of auditors is considered a cost-effective monitoring mechanism | |  | d. | Managers do not benefit from thefinancial statements being audited. |  |  |  | | --- | --- | | *ANSWER:* | d | |