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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?

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|   | 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. |

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| *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?

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|   | a.  | Reasonable |
|   | b.  | Absolute |
|   | c.  | Limited |
|   | d.  | Material |

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| *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?

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|   | 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. |

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| *ANSWER:* | c |

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| 4. Which sort of attitude towards management is generally best for an auditor to adopt?

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|   | a.  | Professional scepticism |
|   | b.  | Suspicion |
|   | c.  | Collegiality |
|   | d.  | Friendship |

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| --- | --- |
| *ANSWER:* | a |

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| 5. Which of the following statements is NOT correct when considering ‘true and fair’ from an auditing perspective?

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|   | 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. |

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| *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:

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|   | a.  | The agency theory hypothesis |
|   | b.  | The information hypothesis |
|   | c.  | The true and fair view hypothesis |
|   | d.  | The insurance hypothesis |

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| --- | --- |
| *ANSWER:* | b |

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| 7. Which of the following is NOT an assumption of agency theory?

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|   | 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. |

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| *ANSWER:* | d |

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