

Exam

Name_____

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

- 1) ASCQC1 requires: 1) _____
- A) the audit firm to establish procedures to assess the integrity of the audit client.
 - B) the audit team to be independent.
 - C) the audit firm to establish policies and procedures to provide reasonable assurance to maintain an appropriate level of independence.
 - D) the audit firm to not receive fees totalling more than 15% of total fees from one audit client.

Answer: C

Explanation: A)
B)
C)
D)

- 2) Which one of the following statements is correct? *ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information* requires audit firms to adopt policies which address: 2) _____
- A) ethical requirements.
 - B) assignment of engagement teams.
 - C) engagement performance.
 - D) all of the above

Answer: D

Explanation: A)
B)
C)
D)

- 3) The reasons for the resignation of an incumbent auditor must be reported to the: 3) _____
- A) client.
 - B) AARF.
 - C) ASX.
 - D) ASIC.

Answer: D

Explanation: A)
B)
C)
D)

- 4) Ethics can be defined as: 4) _____
- A) adhering to society's norms and laws.
 - B) a set of moral principles or values.
 - C) adhering to a code of professional conduct.
 - D) integrity, loyalty and the pursuit of excellence.

Answer: B

Explanation: A)
B)
C)
D)

5) Which one of the following would most likely be a breach of the ethical rules?

5) _____

- A) Auditing Telstra while owning \$250 of Telstra shares
- B) Auditing the bank from which you have a home mortgage
- C) Purchasing a motor vehicle from an audit client at a substantial discount
- D) All would be equally likely to breach the ethical rules.

Answer: C

Explanation: A)
B)
C)
D)

6) Society has attached a special meaning to the term 'professional.' A professional is:

6) _____

- A) a person expected to conduct himself or herself at a higher level than most other members of society.
- B) any person who receives pay for services performed.
- C) a person who has both on-the-job experience received under an experienced supervisor and specific education relevant to the trade.
- D) a person who has attained tertiary qualifications as a prerequisite to joining the job market.

Answer: A

Explanation: A)
B)
C)
D)

7) Which of the following is NOT a reason often given for acting unethically?

7) _____

- A) All legal behaviour is ethical.
- B) It was not known that the action was unethical.
- C) It is a course of action undertaken by everyone else.
- D) There is a reduced likelihood of being discovered.

Answer: B

Explanation: A)
B)
C)
D)

8) A public accounting firm should decline an offer to perform management advisory services if:

8) _____

- A) the proposed engagement is not accounting-related.
- B) recommendations to be made by the firm are to be subject to review by the client.
- C) the firm audits the financial statements of a subsidiary of the prospective client.
- D) acceptance would require the firm to make management decisions for an audit client.

Answer: D

Explanation: A)
B)
C)
D)

- 9) When there are substantial unpaid fees outstanding from previous audit work: 9) _____
- A) independence can be compromised if the unpaid fees take on the character of a loan.
 - B) the audit opinion should be withheld.
 - C) the auditor should seek removal from office.
 - D) a fee premium can be applied to the current audit.

Answer: A

Explanation: A)
B)
C)
D)

- 10) Most accounting and auditing professionals agree that when an audit has failed to uncover material misstatements, and the wrong type of audit opinion is issued, the audit firm: 10) _____
- A) has failed to follow auditing standards.
 - B) deserves to lose the lawsuit.
 - C) should be asked to defend the quality of the audit.
 - D) should not be held responsible for the financial loss suffered by others.

Answer: C

Explanation: A)
B)
C)
D)

- 11) Which one of the following situations is most likely to impair independence? 11) _____
- A) Legal action taken by a third party against both the auditee and the audit firm
 - B) Legal action taken by the auditee against the audit firm in relation to taxation services provided
 - C) Legal action taken by the auditee against the audit firm in relation to management consulting advice
 - D) Legal action taken by the auditee against the audit firm claiming deficiencies in the prior year's audit

Answer: D

Explanation: A)
B)
C)
D)

- 12) The auditor's relationship with financial statement users is different from the relationship that most professionals have with the users of their services because: 12) _____
- A) higher standards of professionalism apply.
 - B) the users directly remunerate the auditor.
 - C) the primary beneficiaries of the audit do not engage the auditor.
 - D) of the confidentiality aspects involved.

Answer: C

Explanation: A)
B)
C)
D)

13) Which of the following is an example of audit failure?

13) _____

- A) There is business failure.
- B) The client company is insolvent.
- C) The auditor failed to use due care and skill in the conduct of the audit.
- D) All of the above

Answer: C

Explanation: A)
B)
C)
D)

14) The *Corporations Act* independence requirements are expressed in terms of:

14) _____

- A) circumstances that might impair an auditor's objectivity and impartial judgement.
- B) threats to independence and safeguards that should be applied.
- C) fundamental principles of professional ethics.
- D) rules that apply only to specific situations.

Answer: A

Explanation: A)
B)
C)
D)

15) Which one of the following statements is NOT correct? Expulsion from CPA Australia or the ICAA for disciplinary reasons:

15) _____

- A) should be seen as a weighty economic sanction.
- B) should be seen as a weighty social sanction.
- C) might provide a basis for the Companies Auditors and Liquidators Disciplinary Board to suspend or cancel registration.
- D) prevents an individual from practising as a public accountant.

Answer: D

Explanation: A)
B)
C)
D)

16) The *audit expectations gap* refers to:

16) _____

- A) differences between the views of auditors and the expectations of other stakeholders regarding the appropriate roles and responsibilities of management, and the audit performance.
- B) differences between what clients expect to pay and what the auditor charges.
- C) differences between the views of auditors and the expectations of other stakeholders regarding the appropriate roles and responsibilities of auditors, and their performance.
- D) all of the above

Answer: C

Explanation: A)
B)
C)
D)

- 17) One of the fundamental principles of the Code of Ethics for Professional Accountants deals with *professional behaviour*. This requires accountants to: 17) _____
- A) be straightforward and honest.
 - B) maintain their knowledge and skill at an appropriately high level.
 - C) refrain from any conduct that may bring discredit to their profession.
 - D) all of the above
- Answer: C
- Explanation: A)
B)
C)
D)
- 18) The Code of Ethics for Professional Accountants (APES 110) is issued by: 18) _____
- A) AARF.
 - B) ASIC and the ICAA.
 - C) APESB.
 - D) ASIC.
- Answer: C
- Explanation: A)
B)
C)
D)
- 19) ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* requires policies and procedures including: 19) _____
- A) ethical requirements (including independence).
 - B) acceptance and continuance of client relationships and specific engagements.
 - C) leadership responsibilities for quality on audits.
 - D) all of the above
- Answer: D
- Explanation: A)
B)
C)
D)
- 20) The first step of the six-step process for resolving ethical dilemmas is: 20) _____
- A) obtain the relevant facts.
 - B) identify the parties involved.
 - C) identify all parties potentially affected by the outcomes.
 - D) identify the ethical issues.
- Answer: A
- Explanation: A)
B)
C)
D)

- 21) Fees for audit engagements should take into account: 21) _____
A) the degree of responsibility the work entails.
B) independence.
C) other services provided.
D) fee dependence.
Answer: A
Explanation: A)
B)
C)
D)
- 22) Which one of the following is NOT one of the five fundamental principles of professional conduct set out in the Code of Ethics for Professional Accountants? 22) _____
A) Continuing education B) Confidentiality
C) Objectivity D) Integrity
Answer: A
Explanation: A)
B)
C)
D)
- 23) Part B of the Code of Professional Ethics identifies specific guidance on professional conduct in the following area(s): 23) _____
A) fees and other types of remuneration. B) gifts and hospitality.
C) professional appointments. D) all of the above
Answer: D
Explanation: A)
B)
C)
D)
- 24) An example of a self-interest threat is: 24) _____
A) the auditor will promote a client's position.
B) the auditor not appropriately evaluating the results of an associate auditor.
C) a financial interest influencing the auditor's judgement.
D) the auditor being influenced by undue pressure from the audit client.
Answer: C
Explanation: A)
B)
C)
D)

25) The Code of Ethics for Professional Accountants is issued by the:

25) _____

- A) Australian Securities Exchange.
- B) Australian Professional Ethics Standards Board.
- C) Australian Accounting Standards Board.
- D) Corporations Act.

Answer: B

Explanation: A)
B)
C)
D)

26) *Audit quality* means:

26) _____

- A) how competent the auditor is.
- B) how well an audit detects and reports material misstatements and fraud in financial statements.
- C) how well an audit detects and reports material misstatements in financial statements.
- D) how independent the auditor is.

Answer: C

Explanation: A)
B)
C)
D)

27) Which one of the following is NOT listed as a factor that may influence the effectiveness of an audit committee?

27) _____

- A) Its interaction with internal audit
- B) The experience of its members
- C) The appropriateness of its actions
- D) The personality of the chairperson

Answer: D

Explanation: A)
B)
C)
D)

28) According to the profession's ethical standards, an auditor would be considered independent in which one of the following instances?

28) _____

- A) The auditor is also a solicitor advising the client.
- B) The client owes the auditor fees for the last two annual audits.
- C) An employee of the audit firm acts as the honorary treasurer for a charity that is an audit client.
- D) The auditor's main bank account is held at a client financial institution.

Answer: D

Explanation: A)
B)
C)
D)

29) The audit expectations gap can be attributed to:

29) _____

- A) audit failure.
- B) business failure.
- C) the limitation to the role of the independent audit.
- D) all of the above

Answer: C

Explanation: A)
B)
C)
D)

30) An ethical dilemma arises:

30) _____

- A) when a person is faced with a situation that requires a decision about the most appropriate behaviour when there is a range of options available.
- B) when a person is faced with a situation that requires a decision about the most appropriate behaviour, but they have very few options available.
- C) when a person is faced with a situation that requires a decision about the least appropriate behaviour, but the available options require a trade-off of interests or ideals.
- D) when a person is faced with a situation that requires a decision about the most appropriate behaviour, but the available options require a trade-off of interests or ideals.

Answer: D

Explanation: A)
B)
C)
D)

31) Part B of the Code of Ethics identifies threats to independence from the following sources:

31) _____

- A) familiarity and intimidation.
- B) self-interest, self-review and advocacy.
- C) both A and B
- D) the work environment

Answer: C

Explanation: A)
B)
C)
D)

32) In determining independence with respect of any audit engagement, the ultimate decision as to whether independence has been achieved is made by the:

32) _____

- A) audit committee.
- B) client.
- C) auditor.
- D) users.

Answer: D

Explanation: A)
B)
C)
D)

- 33) If the outgoing auditor refuses to communicate with the successor auditor: 33) _____
- A) this is a breach of the ethical rules.
 - B) ASIC should be informed so that action can be instigated against the outgoing auditor.
 - C) the client should withhold payment of the audit fee.
 - D) all of the above

Answer: A

Explanation: A)
B)
C)
D)

- 34) The value of the audit report and the demand for audit services depends on: 34) _____
- A) the fees paid for audits.
 - B) public confidence in the regulators.
 - C) public confidence in the independence and integrity of CPAs and chartered accountants.
 - D) all of the above

Answer: C

Explanation: A)
B)
C)
D)

- 35) To emphasise auditor independence from management, many companies: 35) _____
- A) establish a policy of discouraging social conduct between company employees and the staff of the audit firm.
 - B) have the independent auditor report to an audit committee of outside members of the board of directors.
 - C) request that a representative of the auditor be present at the annual general meeting.
 - D) appoint a member of the audit firm to the company's audit committee.

Answer: B

Explanation: A)
B)
C)
D)

- 36) The material financial interests rule means that: 36) _____
- A) an auditor cannot be assigned to the audit of a bank with which that auditor has a home mortgage.
 - B) an auditor should be involved in the executive function of a client to maximise the benefits achieved from the engagement.
 - C) a public accounting firm cannot accept an audit client if anyone in the practice has a material shareholding in the potential client.
 - D) an auditor cannot accept payment from the auditee.

Answer: C

Explanation: A)
B)
C)
D)

- 37) Which one of the following would represent an ethical dilemma for an auditor? 37) _____
- A) Being treated with cancellation of the audit by a client for not agreeing with management's treatment of an accounting issue
 - B) Being approached to tender for the audit of a newly formed company
 - C) Being asked to complete the audit for a nonprofit organisation for no fee
 - D) Being asked to undertake a non-assurance service for an audit client
- Answer: A
- Explanation: A)
B)
C)
D)
- 38) Where the fees from an audit client are more than 15% of total fees, the public accounting firm should: 38) _____
- A) ensure that adequate quality control procedures are in place.
 - B) ensure that the audit work is reviewed by an accountant, not a member of the audit team.
 - C) ensure that all members of the audit team are independent, both in fact and in appearance.
 - D) ensure adequate quality control procedures are in place and that the audit work is reviewed by an accountant, not a member of the audit team.
- Answer: D
- Explanation: A)
B)
C)
D)
- 39) Which one of the following statements about audit committees is NOT correct? 39) _____
- A) Ideally, members should be actively involved in company management.
 - B) They help to keep auditors independent of management.
 - C) Members are selected from a company's board of directors.
 - D) Most have 3-5 members.
- Answer: A
- Explanation: A)
B)
C)
D)
- 40) The underlying reason for a high level of professional conduct by any profession is the need: 40) _____
- A) to create barriers to entry.
 - B) to create an appropriate level of professional esteem.
 - C) for public confidence in the quality of service provided.
 - D) to justify self-regulation.
- Answer: C
- Explanation: A)
B)
C)
D)

- 41) Auditors should NOT use confidential auditee information for personal gain: 41) _____
- A) under any circumstances.
 - B) without the permission of the client and the audit engagement partner.
 - C) without the permission of the client.
 - D) unless requested to do so by the client.

Answer: A

Explanation: A)
B)
C)
D)

- 42) When a firm undertakes both internal and external auditing services for the same entity, which of the following must be applied for the external auditor to demonstrate independence? 42) _____
- A) The external auditor should gather sufficient appropriate audit and rely no more than usual on internal audit work.
 - B) The external auditor should not assume the role of management when undertaking internal audit services.
 - C) Any recommendations made by auditors are for implementation by management rather than the auditor.
 - D) All of the above

Answer: D

Explanation: A)
B)
C)
D)

- 43) The ASX *Corporate Governance Principles* do NOT include: 43) _____
- A) respecting the rights of shareholders.
 - B) remunerating fairly and responsibly.
 - C) safeguarding integrity in financial reporting.
 - D) maximising the profits of shareholders.

Answer: D

Explanation: A)
B)
C)
D)

- 44) APES 110 Code of Professional Conduct considers a material direct financial interest in an audit client to be: 44) _____
- A) the auditor having a loan from an audit client who is a financial institution.
 - B) charging a fee contingent upon an outcome.
 - C) accepting commissions from an audit client.
 - D) providing taxation services to a client.

Answer: A

Explanation: A)
B)
C)
D)

- 45) Which statement about the Code of Ethics for Professional Accountants is NOT true? 45) _____
- A) The Code of Ethics for Professional Accountants has the force of law applicable to auditing standards
 - B) The Code of Ethics for Professional Accountants includes specific rules defining unacceptable behaviours
 - C) The Code of Ethics for Professional Accountants outlines a six-step model for resolving ethical dilemmas
 - D) The Code of Ethics for Professional Accountants contains a section of quality control ideals
- Answer: B
- Explanation: A)
B)
C)
D)
- 46) Audit committees' responsibilities include: 46) _____
- A) considering the scope and quality of the external audit.
 - B) controlling the progress of the audit.
 - C) assessing the independence and objectivity of the audit team.
 - D) all of the above
- Answer: A
- Explanation: A)
B)
C)
D)
- 47) The ASX *Corporate Governance Principles* do NOT include: 47) _____
- A) structuring the board to add value.
 - B) remunerating the auditor fairly and responsibly.
 - C) recognising and managing risk.
 - D) making timely and balanced disclosure.
- Answer: B
- Explanation: A)
B)
C)
D)
- 48) Which one of the following is incorrect with respect to working papers? 48) _____
- A) Ordinarily they can only be provided to a third party with the express permission of the auditee.
 - B) They are the property of the client and can be accessed by the client at the conclusion of the audit.
 - C) They can be viewed by another member of the professional bodies during a peer review.
 - D) Information contained in them is legally not viewed as privileged information.
- Answer: B
- Explanation: A)
B)
C)
D)

49) Circumstances when working papers may be given to a third party are:

49) _____

- A) when requested by a successor auditor.
- B) when permission is granted by the client.
- C) when there is a legal requirement to do so.
- D) both B and C

Answer: D

Explanation: A)
B)
C)
D)

50) Independence in fact is where:

50) _____

- A) the audit firm does not provide any non-assurance services to the audit client.
- B) the general public considers that the auditor has acted objectively.
- C) the audit firm has an effective quality control system in place in the conduct of an audit.
- D) the auditor maintains an unbiased attitude during the audit.

Answer: D

Explanation: A)
B)
C)
D)

51) Corporate governance can be described as:

51) _____

- A) how stakeholders and agencies external to a corporation control or influence those responsible for directing and managing the affairs of the corporation.
- B) the internal controls of corporations.
- C) the processes, structures and mechanisms that control and direct corporations.
- D) provisions of the Corporations Act 2001.

Answer: C

Explanation: A)
B)
C)
D)

52) Auditors may disclose confidential information to a third party if:

52) _____

- A) they have specific authority to do so.
- B) there is a professional duty to do so.
- C) there is a legal duty to do so.
- D) all of the above

Answer: D

Explanation: A)
B)
C)
D)

- 53) The Code of Ethics for Professional Accountants states that a public accountant should maintain integrity and objectivity. The term 'objectivity' refers to the ability: 53) _____
- A) to be unyielding in all matters dealing with auditing procedures.
 - B) to choose independently between alternative accounting treatments.
 - C) to distinguish independently between accounting practices that are acceptable and those which are not.
 - D) to maintain an impartial attitude on all matters that come under the accountant's review.
- Answer: D
Explanation: A)
B)
C)
D)
- 54) One primary reason why people act unethically is: 54) _____
- A) selfishness.
 - B) the effect of the media.
 - C) poor education.
 - D) their political values.
- Answer: A
Explanation: A)
B)
C)
D)
- 55) The provision of internal audit services to an auditee: 55) _____
- A) creates a self-review threat to independence.
 - B) should improve the efficiency of the financial statement audit.
 - C) is prohibited by Corporations legislation.
 - D) is best done by subcontracting staff from the public accounting firm to the auditee.
- Answer: A
Explanation: A)
B)
C)
D)
- 56) Subsection 290.176 of the Code of Ethics for Professional Accountants prohibits the provision of which one of the following to an audit client? 56) _____
- A) Attestation services
 - B) Management consulting services
 - C) Other assurance services
 - D) Independent valuation services
- Answer: D
Explanation: A)
B)
C)
D)
- 57) What percentage of listed Australian companies have an audit committee? 57) _____
- A) 90%
 - B) 50%
 - C) 75%
 - D) 10%
- Answer: A
Explanation: A)
B)
C)
D)

- 58) The regulatory mechanisms addressing corporate governance in Australia emphasise: 58) _____
A) the Australian Securities Exchange's Corporate Governance Council *Principles of Good Governance and Best Practice Recommendations*.
B) *accountability* and *transparency* through the auditor.
C) *accountability* and *transparency* through required disclosures.
D) all of the above

Answer: C

Explanation: A)
B)
C)
D)

- 59) The provision of internal audit services to an audit client may place at risk which of the following ethical attributes? 59) _____
A) Competence and due care
B) Confidentiality
C) Independence
D) All of the above

Answer: C

Explanation: A)
B)
C)
D)

- 60) Section 290 in Part B of the Code sets minimum standards of conduct regarding: 60) _____
A) independence.
B) auditor switching.
C) fees and other types of remuneration.
D) gifts and hospitality.

Answer: A

Explanation: A)
B)
C)
D)

- 61) The audit *expectation gap* is attributed to which of the following causes? 61) _____
A) Auditors' self-interest in protecting their profits
B) Changes in social expectations
C) Complainants' self-interest seeking compensation
D) All of the above

Answer: D

Explanation: A)
B)
C)
D)

- 62) The auditor's ultimate defence where conflicts are sufficiently great so as to compromise objectivity is: 62) _____
A) APES 110.
B) the working papers.
C) whistle blowing.
D) resignation.

Answer: D

Explanation: A)
B)
C)
D)

- 63) Which of the following is NOT a concern that may arise from an audit firm completing an audit for a substantially reduced fee? 63) _____
- A) The audit firm is allocating sufficient time and qualified staff to the audit.
 - B) A lower quality of auditing
 - C) A more efficient audit can be conducted as the audit is completed within a budgeted time frame.
 - D) Compliance with applicable standards and quality control procedures

Answer: C

Explanation: A)
B)
C)
D)

- 64) The *Code of Ethics for Professional Accountants* adopts a conceptual framework that involves: 64) _____
- A) a system of safeguards that reduce threats to an acceptable level.
 - B) a framework for identifying, evaluating and resolving threats to the fundamental principles.
 - C) principles approach because it is impossible to anticipate every situation that might generate an ethical problem for a professional accountant.
 - D) all of the above

Answer: D

Explanation: A)
B)
C)
D)

- 65) Many of the ethical values of society are NOT incorporated into laws because: 65) _____
- A) it is not cost-beneficial to do so.
 - B) of the judgemental nature of particular values.
 - C) of enforcement difficulties.
 - D) of cultural differences in society.

Answer: B

Explanation: A)
B)
C)
D)

- 66) Which one of the following is incorrect in relation to setting fees? 66) _____
- A) Fees based on the achievement of certain outcomes are prohibited.
 - B) The basis for agreed fees should be documented.
 - C) The time of all people engaged in the work should be taken into account.
 - D) Fixed fees are less likely to result in compromised independence.

Answer: D

Explanation: A)
B)
C)
D)

- 67) The main reason for communication between the predecessor and successor auditor is to: 67) _____
- A) determine any implications for the independence of the successor.
 - B) establish the likelihood that fees will be paid.
 - C) satisfy ASIC requirements.
 - D) pass on working papers.

Answer: A

Explanation: A)
B)
C)
D)

- 68) A familiarity threat can be reduced by: 68) _____
- A) rotation of the lead auditor and review partner.
 - B) rotation of the senior partner.
 - C) rotation of the audit team.
 - D) rotation of audit firms.

Answer: A

Explanation: A)
B)
C)
D)

- 69) The agency view of the corporation emphasises: 69) _____
- A) a control-oriented approach to governance.
 - B) issues associated with the potential conflicts of interest of management (as the agents of the owners) in serving the interests of shareholders (as the owners of the corporation).
 - C) mechanisms designed to curb managerial self-serving decisions and actions.
 - D) all of the above

Answer: D

Explanation: A)
B)
C)
D)

- 70) If a public accounting firm is requested by a client of another audit firm to provide an opinion on the application of an accounting principle, the public accounting firm should: 70) _____
- A) refuse to give an opinion.
 - B) inform ASIC.
 - C) advise the existing auditor.
 - D) all of the above

Answer: C

Explanation: A)
B)
C)
D)

- 71) The disadvantage of including general statements in a code of professional ethics is: 71) _____
- A) there are usually too many to remember.
 - B) the difficulty of enforcing general ideals without minimum standards of ideal behaviour.
 - C) that they identify ideal conduct.
 - D) the emphasis on positive activities.

Answer: B

Explanation: A)
B)
C)
D)

- 72) 'Independence' in auditing means: 72) _____
- A) not being financially dependent on the client.
 - B) not being an advocate for the client.
 - C) remaining aloof from the client.
 - D) taking an unbiased viewpoint.

Answer: D

Explanation: A)
B)
C)
D)

- 73) Which one of the following policies and procedures is NOT required by *ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information*? 73) _____
- A) Remunerating the auditor fairly and responsibly
 - B) Acceptance and continuance of client relationships and specific engagements
 - C) Ethical requirements (including independence)
 - D) Leadership responsibilities for quality on audits

Answer: A

Explanation: A)
B)
C)
D)

- 74) In the Code of Ethics for Professional Accountants, the advantage of general statements of ideal conduct, as opposed to specific rules of behaviour, is: 74) _____
- A) the ability to enforce the ideals.
 - B) the emphasis on positive activities.
 - C) the enforceability of minimum behaviour and performance standards.
 - D) the tendency to define the rules as maximum rather than minimum standards.

Answer: B

Explanation: A)
B)
C)
D)

- 75) Section 324CH lists 19 relationships that establish a conflict of interest. Which relationship that the auditor may have with the client is NOT included? 75) _____
- A) Owes an amount of more than \$5000 to the audited body
 - B) Has an asset that is an immaterial investment in an entity that has a controlling interest in the audited body
 - C) Has an asset that is a material investment in an entity that has a controlling interest in the audited body
 - D) Has an asset that is an investment in the audited body

Answer: B

Explanation: A)
B)
C)
D)

- 76) Many accounting firms have adopted policies known as *improved business practices*. Which of the following is NOT one of the above? 76) _____
- A) Improved recruiting practices
 - B) Developing more sophisticated use of technology
 - C) More effective advertising
 - D) Increased professional indemnity insurance cover

Answer: D

Explanation: A)
B)
C)
D)

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

- 77) A public accounting firm currently audits XYZ Co., a publicly listed company. The firm has been approached by XYZ Co. to also provide valuation services on all its Property, Plant and Equipment. Can the firm provide these services? 77) _____

Answer: Subsection 290.176 of the Code indicates the impact on both independence in fact and in appearance would need to be assessed. If the self-review threat cannot be reduced to an acceptable level (due to materiality and the degree of subjectivity) the audit firm should decline the request.

Explanation:

- 78) Discuss the ways in which both the accounting profession and society itself encourages public accountants to conduct themselves in a professional manner, i.e. the factors that influence the ethical conduct of audit practitioners. 78) _____

Answer: There are many factors that encourage public accountants to conduct themselves at a high level, including:

- Auditing standards and pronouncements
- The Code of Ethics for Professional Accountants
- Legal liability
- Quality control
- Peer review
- Continuing professional education requirements
- Professional programs and examinations
- ASIC oversight
- Tertiary study requirements.

Explanation:

- 79) What is auditor independence and why is it so important? 79) _____
- Answer: Independence in auditing means taking an unbiased viewpoint in the performance of audit tests, the evaluation of the results and the issuance of the audit report. Independence is one of the auditor's most vital characteristics and is fundamental to the principles of integrity and objectivity. The reason that many users are willing to rely on the external auditors' reports as to the truth and fairness of financial statements is their expectation of an unbiased viewpoint.
- Explanation:
- 80) Can a public accounting firm accept an audit client if a principal within the firm has a direct shareholding in the prospective client? 80) _____
- Answer: The Corporations Act (s. 324CH) and the Code of Ethics for Professional Accountants Subsections 290.104 to 290.134 address this issue. No practice may accept or maintain a company as an audit client if any person (or his or her near relative) in the practice has a material shareholding in that company.
- Explanation:
- 81) What is the 'expectation gap' and to what causes has the 'expectation gap' been attributed? 81) _____
- Answer: The expectation gap is the difference between the views of the auditors and the expectations of other stakeholders regarding the appropriate roles and responsibilities of auditors and the performance of auditors. This has been attributed to the nature of auditing, including reliance on sampling and subjective evidence, and the application of hindsight rather than what is known and reasonable at the time.
- Explanation:
- 82) What rules prohibit an auditor from being an employee, officer or director of an audit client? 82) _____
- Answer: The Corporations Act (s. 324CH) and the Joint Code of Ethics for Professional Accountants, subsection 290.149.
- Explanation:
- 83) Does the Code of Ethics for Professional Accountants permit a public accounting firm to undertake bookkeeping and audit services for the same client? 83) _____
- Answer: Yes, but only in limited circumstances. The Code of Ethics permits a public accounting firm to do both bookkeeping and auditing for a client provided it is not a listed entity and provided any self-review threat is reduced to an acceptable level. The general prohibition is also relaxed to allow for 'emergency situations'. Services of a routine and mechanical nature provided to divisions or subsidiaries of listed clients are allowed, provided they do not involve the exercise of judgement, the work is immaterial and the fees insignificant.
- If such services are provided, all of the following safeguards should be applied:
- the firm, or network firm, should not assume any managerial role or make any managerial decisions;
 - the listed audit client should accept responsibility for the results of the work; and
 - personnel providing the services should not participate in the audit.
- Explanation:

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

84) The Code adopts a conceptual framework approach because it is impossible to anticipate every situation that might create an ethical problem for a professional accountant. 84) _____

Answer: ☒ True ☐ False

Explanation:

85) An advantage of general statements (principles of professional conduct) in the Code of Ethics for Professional Accountants is the emphasis on positive activities that encourage a high level of performance. 85) _____

Answer: ☒ True ☐ False

Explanation:

86) When audit working papers are viewed by another party as part of a peer review, the permission of the client must be obtained. 86) _____

Answer: ☐ True ☒ False

Explanation:

87) The professional bodies' ethical rules have the force of law applicable to auditing standards. 87) _____

Answer: ☒ True ☐ False

Explanation:

88) The annual audit is the cornerstone of corporate governance. 88) _____

Answer: ☒ True ☐ False

Explanation:

89) To preserve audit independence, the review partner must rotate every 5 years. 89) _____

Answer: ☒ True ☐ False

Explanation:

90) Corporate failures are signals of failures in audit quality in the conduct of an audit. 90) _____

Answer: ☐ True ☒ False

Explanation:

91) An advantage of specific rules in the Code of Ethics for Professional Accountants is the enforceability of minimum behaviour and performance standards. 91) _____

Answer: ☒ True ☐ False

Explanation:

92) In the Code of Ethics for Professional Accountants, the first principle of professional conduct, entitled "Integrity," applies only to members in public practice and not to members who work as accountants in business, government or education. 92) _____

Answer: ☐ True ☒ False

Explanation:

93) An audit partner may own shares in a company that is an audit client if the value of the shares is immaterial. 93) _____

Answer: ☐ True ☒ False

Explanation:

94) The Code of Ethics for Professional Accountants should be considered as individual rules applicable to individual members according to their circumstances. 94) _____

Answer: True ☒ False

Explanation:

95) The ASX listing rules require listed companies who do not have an audit committee to establish an audit committee within three years. 95) _____

Answer: True ☒ False

Explanation:

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

96) Discuss the role and responsibility of the audit committee.

Answer: The audit committee is a subcommittee of a company's board of directors who are not part of the management of the company. The responsibility of the audit committee includes:

- financial reporting
- internal control and risk management establishing and continually monitoring a framework and processes for compliance with laws, standards, best practice guidelines and the entity's code of conduct
- reviewing reports to regulators
- reviewing related-party transactions
- management information systems
- prevention, detection, and investigation of fraud and irregularities considering the scope and quality of the external audit

In regard to the external auditor, the audit committee decides auditor nominations and the scope of services the audit firm is to perform, discusses with the auditor the progress of the audit and its findings, and assists in resolving conflicts between the auditor and management.

97) There are five fundamental principles of professional conduct set out in Part A of the Code of Ethics for Professional Accountants. List each and briefly discuss each in the context of provision of audit services.

Answer: 1. *Integrity*. Auditors must be straightforward and honest, and practise fair dealing and truthfulness in their professional relationships.

2. *Objectivity*. Auditors must not compromise their professional judgement because of bias, conflict of interest or the undue influence of others. This requires auditors to maintain an impartial attitude when planning the audit, interpreting evidence and reporting on financial reports that come under their review.

3. *Professional competence and due care*. Auditors must maintain their professional knowledge and skill at an appropriately high level, and be diligent in the application of their knowledge and skills when providing professional services. By inference, auditors should refrain from offering or providing services that they are not competent to carry out, and must carry out their professional work in accordance with all relevant technical and professional standards.

4. *Confidentiality*. Auditors must respect the confidentiality of information acquired through their professional work or relationships. They must neither use confidential information acquired as a result of their professional relationships to their personal advantage, nor to the advantage of a third party. Auditors must not disclose such confidential information to a third party without specific authority from their client or unless there is a legal duty to disclose.

5. *Professional behaviour*. Auditors must refrain from any conduct, including omissions, that might bring discredit to their profession. They should not exaggerate their qualifications or capabilities, and should not make disparaging references or unsubstantiated comparisons to competitors.

98) Explain the difference between independence in appearance and independence in fact and explain why each is important to the value of the auditing function.

Answer: Independence in appearance is achieved when users of audited financial statements perceive the auditor to be impartial and unbiased with respect to the client. If auditors are not perceived to be independent of the client, then much of the societal value of the audit function is lost because the audit report will not do much to reduce information risk as the opinion lacks credibility. Independence in fact refers to whether the audit has maintained an impartial and unbiased attitude during the conduct of the audit and in forming and reporting the audit opinion. If independence in fact is not achieved, then audit quality is likely to suffer and the risk of an inappropriate opinion being issued increases.

99) List and describe the six-step process for resolving ethical dilemmas.

Answer: 1. Obtain the relevant facts
2. Identify the ethical issues.
3. Determine who is affected by the outcome of the dilemma and how each person or group is affected.
4. Identify the alternatives available to the person who must resolve the dilemma.
5. Identify the likely consequences of each alternative.
6. Decide the appropriate action.

100) Explain the "conceptual approach" referred to in APES110.

Answer: CONCEPTUAL FRAMEWORK APPROACH

The APESB's *Code of Ethics for Professional Accountants* adopts a principles approach because it is impossible to anticipate every situation that might generate an ethical problem for a professional accountant. It therefore provides a framework for identifying, evaluating and resolving threats to the fundamental principles.

The framework of threats is:

Self-interest—when the financial interests of the auditor or relative are involved.

Self-review—when an auditor evaluates a situation that is a consequence of a previous judgement or advice by the auditor or the auditor's firm.

Advocacy—when the auditor promotes a position or opinion to the point where subsequent objectivity may be compromised.

Familiarity—when an auditor becomes too sympathetic to the interests of another party because of a close relationship.

Intimidation—when an auditor's actions may be compromised by actual or perceived threats.

The Code identifies two broad categories of safeguards that reduce threats to an acceptable level.

These are safeguards attributable to:

The profession, legislation and regulation—these include education, training and continuing professional development requirements, corporate governance regulations, professional standards, and professional or regulatory monitoring and enforcement.

The work environment—which relies substantially on the culture and processes developed in an audit firm. These are discussed in Part B of the Code.

101) Explain why there is a special need for ethical conduct in the auditing profession.

Answer: Since users (e.g. the general public) of services provided by an auditor generally cannot evaluate the quality of the auditor's performance, it is critical to the auditing profession that the public have a high degree of confidence in the quality of the services provided by the auditor. Public confidence in the quality of professional services is enhanced when the profession encourages high standards of performance and ethical conduct by all its members. If users of auditing services were to lack confidence in the quality of those services, then the value of public accounting firms' audits would be diminished, as would the demand for audits.

Answer Key
Testname: C3

- 1) C
- 2) D
- 3) D
- 4) B
- 5) C
- 6) A
- 7) B
- 8) D
- 9) A
- 10) C
- 11) D
- 12) C
- 13) C
- 14) A
- 15) D
- 16) C
- 17) C
- 18) C
- 19) D
- 20) A
- 21) A
- 22) A
- 23) D
- 24) C
- 25) B
- 26) C
- 27) D
- 28) D
- 29) C
- 30) D
- 31) C
- 32) D
- 33) A
- 34) C
- 35) B
- 36) C
- 37) A
- 38) D
- 39) A
- 40) C
- 41) A
- 42) D
- 43) D
- 44) A
- 45) B
- 46) A
- 47) B
- 48) B
- 49) D
- 50) D

Answer Key

Testname: C3

- 51) C
- 52) D
- 53) D
- 54) A
- 55) A
- 56) D
- 57) A
- 58) C
- 59) C
- 60) A
- 61) D
- 62) D
- 63) C
- 64) D
- 65) B
- 66) D
- 67) A
- 68) A
- 69) D
- 70) C
- 71) B
- 72) D
- 73) A
- 74) B
- 75) B
- 76) D
- 77) Subsection 290.176 of the Code indicates the impact on both independence in fact and in appearance would need to be assessed. If the self-review threat cannot be reduced to an acceptable level (due to materiality and the degree of subjectivity) the audit firm should decline the request.
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Answer Key

Testname: C3

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 - personnel providing the services should not participate in the audit.

- 84) TRUE
- 85) TRUE
- 86) FALSE
- 87) TRUE
- 88) TRUE
- 89) TRUE
- 90) FALSE
- 91) TRUE
- 92) FALSE
- 93) FALSE
- 94) FALSE
- 95) FALSE

- 96) The audit committee is a subcommittee of a company's board of directors who are not part of the management of the company. The responsibility of the audit committee includes:
- financial reporting
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Answer Key

Testname: C3

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