

Auditing and Assurance Services, 15e, Global Edition (Arens)
Chapter 13 Developing the Overall Audit Plan and Audit Program

Learning Objective 13-1

1) Shown below (1 through 5) are the five types of tests which auditors use to determine whether financial statements are fairly stated. Which three are substantive tests?

1. Risk assessment procedures
 2. Tests of controls
 3. Tests of transactions
 4. Substantive analytical procedures
 5. Tests of details of balances
- A) 1, 2, and 3.
B) 3, 4, and 5.
C) 2, 3, and 5.
D) 2, 3, and 4.

Answer: B

Terms: Three types of substantive tests which auditors use

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

2) Collectively, procedures performed to obtain an understanding of the entity and its environment, including internal controls, represent the auditor's:

- A) audit strategy.
B) tests of controls.
C) risk assessment procedures.
D) tests of transactions.

Answer: C

Terms: Procedures performed to obtain understanding of entity and environment, including internal controls

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

3) Which of the following would **not** be considered further audit procedures?

- A) Tests of controls
B) Analytical procedures
C) Tests of details of balances
D) Risk assessment procedures

Answer: D

Terms: Not considered a further audit procedure

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

4) Which of the following procedures would most likely be performed in response to the auditor's assessment of the risk of monetary misstatements in the financial statements?

- A) Ratio analysis
- B) Tests of controls
- C) Tests of details of balances**
- D) Risk assessment procedures

Answer: C

Terms: Procedure performed in response to auditor's assessment of risk of monetary misstatement

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

5) Which of the following further audit procedures are used to determine whether all six transaction-related audit objectives have been achieved for each class of transactions?

- A) Tests of controls
- B) Risk assessment procedures
- C) Substantive tests of transactions**
- D) Preliminary analytical procedures

Answer: C

Terms: Further audit procedures to determine whether all six transaction related audit objectives have been achieved

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

6) You are auditing Rodgers and Company. After performing substantive analytical procedures you conclude that, for the accounts tested, the client's balance appears reasonable. This may indicate that:

- A) details test of balances can be eliminated for those accounts.
- B) certain tests of details of balances may be eliminated for those accounts.**
- C) control tests may be eliminated for those accounts.
- D) control tests may be reduced for those accounts.

Answer: B

Terms: After performing substantive analytic procedures

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

7) The purpose of tests of controls is to provide reasonable assurance that the:

A) accounting treatment of transactions and balances is valid and proper.

B) internal control procedures are functioning as intended.

C) entity has complied with GAAP disclosure requirements.

D) entity has complied with requirements of quality control.

Answer: B

Terms: Purpose of tests of controls

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

8) In the context of an audit of financial statements, substantive tests are audit procedures that:

A) may be eliminated under certain conditions.

B) are designed to discover significant subsequent events.

C) are designed to test for dollar misstatements.

D) will increase proportionately with the auditor's reliance on internal control.

Answer: C

Terms: Substantive tests are audit procedures

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

9) Which of the following is true?

A) Tests of details of balances focus on the ending general ledger balances for both balance sheet and income statement accounts.

B) Tests of details of balances focus on the transactions during the period for both balance sheet and income statement accounts.

C) Tests of details of balances focus on the auditor's understanding of internal controls.

D) Tests of details of balances focus on comparisons of recorded amounts to expectations developed by the auditor.

Answer: A

Terms: Tests of details of balances focus on

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

10) A system walkthrough is primarily used to help the auditor:

A) test the ending account balances.

B) test the details of transactions.

C) determine whether internal controls are in place.

D) determine whether the audit engagement should be accepted.

Answer: C

Terms: System walkthrough

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

11) Risk assessment procedures are performed by auditors during an audit in order to:

A) determine the risk of material misstatement in the financial statements.

B) determine the amount of testing of internal control.

C) determine the extent of testing of details of balances.

D) determine the extent of testing of transactions.

Answer: A

Terms: Risk assessment procedures

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

Topic: Public

12) Tests of controls are directed toward the control's:

A) efficiency.

B) effectiveness.

C) cost and effectiveness.

D) cost benefit ratio.

Answer: B

Terms: Tests of controls directed toward

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

13) A procedure designed to test for monetary misstatements directly affecting the correctness of financial statement balances is a:

A) test of controls.

B) substantive test.

C) test of attributes.

D) monetary-unit sampling test.

Answer: B

Terms: Procedure designed to test for monetary misstatements directly affecting correctness of financial statements

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

14) Analytical procedures:

A) involve comparisons of recorded amounts to expectations developed by management.

B) are only performed during the planning stage of the audit.

C) are required to be performed when auditing an account balance.

D) provide substantive evidence.

Answer: D

Terms: Analytical procedures

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

15) The primary emphasis in most tests of details of balances is on the:

- A) balance sheet accounts.
- B) revenue accounts.
- C) cash flow statement accounts.
- D) expense accounts.

Answer: A

Terms: Primary emphasis in most tests of details of balances

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

16) Which of the following statements is **not** true?

- A) Analytical procedures emphasize the overall reasonableness of transactions and balances.
- B) Tests of controls are concerned with evaluating whether controls are sufficiently effective to justify reducing control risk and thereby reducing analytical review procedures.
- C) Substantive tests of transactions emphasize the verification of transactions recorded in the journals and then posted in the general ledger.
- D) Tests of details of balances emphasize the ending balances in the general ledger.

Answer: B

Terms: Tests of controls

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

17) Many auditors perform extensive analytical procedures on audits because:

- A) they are required by GAAS.
- B) they pinpoint errors in accounts.
- C) they indicate areas of potential risk and misstatement.
- D) they are required for tests of controls.

Answer: C

Terms: Auditors perform extensive analytical procedures

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

18) When controls are deemed ineffective and assessed control risk is at the maximum for a private company, which of the following would normally be true?

- A) No emphasis is placed on the controls.
- B) Relatively little emphasis is placed on the controls.
- C) Moderate emphasis is placed on the controls.
- D) Heavy emphasis is placed on the controls.

Answer: A

Terms: Controls deemed ineffective and assessed control risk is at maximum

Diff: Challenging

Objective: LO 13-1

AACSB: Reflective thinking skills

19) Which of the following is ordinarily designed to detect material dollar errors on the financial statements?

- A) Tests of controls
- B) Analytical review procedures
- C) Computer controls
- D) Tests of details of balances

Answer: D

Terms: Designed to detect material dollar errors on the financial statements

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

20) List each of the five types of audit tests and give at least two types of evidence that may be obtained from each type of test.

Answer:

- Risk assessment procedures - documentation, observation, inquiries of the client, and reperformance
- Tests of controls - documentation, observation, inquiries of the client, and reperformance
- Substantive tests of transactions - documentation, inquiries of the client, and reperformance
- Analytical procedures - inquiries of the client and analytical procedures
- Tests of details of balances - physical examination, confirmation, documentation, inquiries of the client, and reperformance

Terms: Audit tests and types of evidence

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

21) Describe the five types of audit tests. Identify which of the five types are substantive tests, and which are used to reduce assessed control risk.

Answer: The five types of audit tests used to determine whether financial statements are fairly stated are: risk assessment procedures, tests of controls, substantive tests of transactions, analytical procedures, and tests of details of balances. Substantive tests of transactions, analytical procedures, and tests of details of balances are substantive tests, whereas procedures to obtain an understanding of internal control and tests of controls are used to reduce assessed control risk.

Terms: Types of audit tests; Substantive tests which reduce assessed control risk

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

22) Discuss the purposes of (1) substantive tests of transactions, (2) tests of controls, and (3) tests of details of balances. Give an example of each.

Answer: The purpose of substantive tests of transactions is to determine whether all six transaction-related audit objectives have been satisfied for each class of transactions. For example, as part of the auditor's test of the accuracy objective for sales, the auditor would compare the amount recorded in the sales journal for a sample of sales transactions with the total on the corresponding sales invoices.

The purpose of tests of controls is to determine the effectiveness of both the design and operations of specific internal controls. For example, the auditor might observe for a month whether statements are mailed to all customers.

The purpose of tests of details of balances is to determine the monetary correctness of the accounts to which they relate. The confirmation of accounts receivable is an example.

Terms: Substantive tests of transactions, tests of controls and tests of details of balances

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

23) There are three stages of the audit in which analytical procedures are performed. Identify each of these three stages and, for each stage, discuss the purpose of performing analytical procedures in that stage. Also indicate in which stage(s) analytical procedures are required by current professional auditing standards.

Answer: Analytical procedures are performed in the audit planning stage to help the auditor decide the other evidence needed to satisfy sufficient competent evidence requirements.

Analytical procedures can also be performed as substantive tests in the testing phase of the audit.

Analytical procedures are performed in the audit completion phase as a final test of reasonableness. Auditing standards require that analytical procedures be performed in the planning and completion phases of every audit.

Terms: Analytical procedures in stages of audit

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

24) There are eight types of audit evidence: physical examination, confirmation, inspection, observation, inquiries of the client, reperformance, analytical procedures, and recalculation. For each of the following types of audit tests, indicate the type(s) of evidence that can be obtained through the test: (1) tests of controls, (2) substantive tests of transactions, (3) analytical procedures, and (4) tests of details of balances.

Answer:

1. *Tests of controls.* Inspection, observation, inquiries of the client, reperformance

2. *Substantive tests of transactions.* Inspection, inquiries of the client, reperformance, recalculation

3. *Analytical procedures.* Inquiries of the client, analytical procedures

4. *Tests of details of balances.* Physical examination, confirmation, inspection, inquiries of the client, reperformance, recalculation

Terms: Relationship of audit tests and types of audit evidence

Diff: Challenging

Objective: LO 13-1

AACSB: Reflective thinking skills

25) Procedures to obtain an understanding of internal control generally provide sufficient appropriate evidence that a control is operating effectively.

A) True

B) False

Answer: B

Terms: Internal controls

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

26) Substantive tests are procedures designed to test for dollar misstatements that directly affect the correctness of financial statement balances.

A) True

B) False

Answer: A

Terms: Exception in substantive test of transactions

Diff: Easy

Objective: LO 13-1

AACSB: Reflective thinking skills

27) A major part of the auditor's risk assessment procedures is done to obtain an understanding of internal control.

A) True

B) False

Answer: A

Terms: Risk assessment procedures

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

28) Tests of controls should be performed after substantive tests of transactions.

A) True

B) False

Answer: B

Terms: Tests of controls and substantive tests of transactions

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

29) Auditors use analytical procedures and tests of details of balances to satisfy planned detection risk.

A) True

B) False

Answer: A

Terms: Detection risk

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

30) Auditors must perform tests of controls separately from substantive tests of transactions.

A) True

B) False

Answer: B

Terms: Tests of controls and substantive tests of transactions

Diff: Moderate

Objective: LO 13-1

AACSB: Reflective thinking skills

31) Analytical procedures are normally designed at the account level, whereas tests of controls and substantive tests of transactions are normally designed at the transaction-related objective level.

A) True

B) False

Answer: A

Terms: Analytical procedures designed at the account level

Diff: Challenging

Objective: LO 13-1

AACSB: Reflective thinking skills

32) Tests of controls are performed to support a reduced assessment of detection risk.

A) True

B) False

Answer: B

Terms: Procedures to obtain an understanding of internal control

Diff: Challenging

Objective: LO 13-1

AACSB: Reflective thinking skills

Learning Objective 13-2

1) In order to promote audit efficiency the auditor considers cost in selecting audit tests to perform. Which of the following audit tests would be the most costly?

- A) Analytical procedures
- B) Risk assessment procedures
- C) Tests of controls
- D) Tests of details of balances**

Answer: D

Terms: Most costly audit test

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

2) An exception or deficiency found in a test of controls:

- A) indicates a financial statement misstatement.
- B) indicates the likelihood of a misstatement.**
- C) indicates that the financial statements are fairly stated.
- D) indicates that an adverse opinion is warranted on the audit of internal control.

Answer: B

Terms: Exception or deficiency in test of controls

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

3) If no material differences are found using analytical procedures and the auditor concludes that misstatements are not likely to have occurred:

- A) other substantive tests may be reduced.**
- B) it will be necessary to increase the tests of balances.
- C) it will not be necessary to perform tests of balances.
- D) it will be necessary to increase the tests of transactions.

Answer: A

Terms: If no material differences are found using analytical procedures

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

4) Which of the following audit tests is usually the least costly to perform?

- A) Analytical procedures**
- B) Tests of controls
- C) Tests of balances
- D) Substantive tests of transactions

Answer: A

Terms: Least costly audit test

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

5) An increased extent of tests of controls is most likely to occur when:

A) it is a first-year audit.

B) the auditor is doing a "fraud audit."

C) controls are effective and the preliminary control risk assessment is low.

D) controls are ineffective and the preliminary control risk assessment is high.

Answer: C

Terms: Increased extent of tests of controls most likely to occur

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

6) When an auditor believes that analytical procedures indicate a reasonable possibility of misstatement, the auditor usually would:

A)

Perform additional tests of controls	Decide to modify tests of details of balances
Yes	Yes

B)

Perform additional tests of controls	Decide to modify tests of details of balances
No	No

C)

Perform additional tests of controls	Decide to modify tests of details of balances
Yes	No

D)

Perform additional tests of controls	Decide to modify tests of details of balances
No	Yes

Answer: D

Terms: Analytical procedures indicate reasonable possibility of misstatement

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

7) If tests of controls support the control risk assessment, then _____ in the audit risk model is increased.

A) planned detection risk.

B) planned inherent risk.

C) planned fraud risk.

D) planned assurance risk.

Answer: A

Terms: Results of tests of controls, substantive tests of transactions, and analytical procedures

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

8) The auditor would design which of the following audit tests to detect possible monetary errors in the financial statements?

A) Control tests

B) Analytical procedures

C) Risk assessment procedures

D) Tests of operating effectiveness of controls over revenue and cash

Answer: B

Terms: Audit tests to detect possible monetary errors in the financial statements

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

9) The reliance the auditor places on substantive tests in relation to the reliance placed on internal control varies in a relationship that is ordinarily:

A) parallel.

B) inverse.

C) direct.

D) equal.

Answer: B

Terms: Reliance auditor places on substantive tests and internal controls

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

10) A deficiency uncovered in the audit of internal control is explained by which of the following in relation to a financial statement misstatement?

A) The amount of the misstatement

B) The likelihood of the misstatement

C) The amount, likelihood, and classification of the misstatement

D) The amount and the classification of the misstatement

Answer: B

Terms: Deficiency uncovered in audit of internal control

Diff: Challenging

Objective: LO 13-2

AACSB: Reflective thinking skills

11) Which of the following is **not** a valid basis for omitting an audit test in forming an opinion on the clients financial statements?

A) The difficulty and expense involved in testing a particular item

B) The relative risk involved

C) The degree of reliance on the relevant internal controls

D) The relationship between the cost of obtaining evidence and its usefulness

Answer: A

Terms: Not a valid basis for omitting an audit test in forming an opinion

Diff: Challenging

Objective: LO 13-2

AACSB: Reflective thinking skills

12) Three factors the auditor considers when assessing control risk are: the auditor's belief concerning the effectiveness of internal controls, the results of tests of controls, and the cost-effectiveness of a reduced assessed control risk. Identify the combination of conditions for these three factors that is required before a reduction in substantive testing is permitted.

Answer: A reduction in substantive testing is permitted when (1) the auditor identifies specific controls he or she believes have been operating effectively during the period under audit, (2) the auditor believes it will be cost-effective to test those controls, and (3) the results of tests of controls indicate that the controls have indeed been operating effectively.

Terms: Three factors auditor considers when assessing control risk and conditions before reduction in substantive testing

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

13) Tests of controls are generally more costly to perform than analytical procedures.

A) True

B) False

Answer: A

Terms: Cost of tests of controls vs. analytical procedures

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

14) Only tests of details of balances involve physical examination and confirmation.

A) True

B) False

Answer: A

Terms: Substantive tests of details of balances cost

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

15) Analytical procedures are the least costly type of audit test.

A) True

B) False

Answer: A

Terms: Analytical procedures cost

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

16) If inherent risk is increased to medium from low, tests of details of balances can be reduced.

A) True

B) False

Answer: B

Terms: Inherent risk; Details of balances

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

17) The extent of tests of details of balances cannot be reduced when transaction-related audit objectives have been satisfied by tests of controls or substantive tests of transactions.

A) True

B) False

Answer: B

Terms: Extent of details of balances; Transaction-related audit objectives; Tests of controls and substantive tests of transactions

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

18) Because of the high cost of tests of details of balances, auditors do not perform this type of testing unless fraud is suspected.

A) True

B) False

Answer: B

Terms: Test of details of balances

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

19) The auditor's understanding of internal control performed as part of risk assessment procedures provides the basis for the auditor's initial assessment of control risk.

A) True

B) False

Answer: A

Terms: Variation in audit evidence in cycles

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

20) Analytical procedures are the most expensive type of audit test to perform because of the expertise and training required to properly use them.

A) True

B) False

Answer: B

Terms: Analytical procedures cost

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

21) The results of tests of controls and substantive tests of transactions affect the design of tests of details of balances.

A) True

B) False

Answer: A

Terms: Results of tests of controls affect design of tests of details of balances

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

22) If internal controls are tested and are considered effective, the auditor generally will increase both substantive tests of transactions and tests of details of balances.

A) True

B) False

Answer: B

Terms: Auditor's preliminary assessment of control risk

Diff: Moderate

Objective: LO 13-2

AACSB: Reflective thinking skills

23) Tests of controls provide evidence about the likelihood for misstatements in a client's financial statements.

A) True

B) False

Answer: A

Terms: Tests of controls; Misstatements in client's financial statements

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

24) An exception in a test of control provides only an indication of the likelihood of monetary misstatements in the financial statements because tests of controls do not reveal whether monetary misstatements have actually occurred.

- A) True
- B) False

Answer: A

Terms: Exception in test of control; Indication of likelihood of monetary misstatements

Diff: Easy

Objective: LO 13-2

AACSB: Reflective thinking skills

Learning Objective 13-3

1) Auditors who test manual controls that rely on IT-generated reports must consider:

- A) the effectiveness of management's review.
- B) automated controls over the accuracy of information in the report.
- C) both A and B
- D) neither A or B.

Answer: C

Terms: Test manual controls that rely on IT-generated reports

Diff: Moderate

Objective: LO 13-3

AACSB: Reflective thinking skills

2) Auditing standards recognize that in instances where a significant amount of audit evidence is in electronic form, it may not be possible to reduce detection risk to an acceptable level by performing only substantive tests.

- A) True
- B) False

Answer: A

Terms: Auditing standards; Evidence in electronic form reduces detection risk

Diff: Moderate

Objective: LO 13-3

AACSB: Reflective thinking skills

3) In the audit of a public company, automated controls must be tested if they are considered to be key controls for reducing the likelihood of material misstatements in the financial statements.

- A) True
- B) False

Answer: A

Terms: Audit of public company testing of computer controls

Diff: Challenging

Objective: LO 13-3

AACSB: Reflective thinking skills

Topic: Public

4) Once auditors determine an automated control is functioning properly, they can focus subsequent tests on assessing whether any changes have occurred that will limit the effectiveness of the control.

- A) True
- B) False

Answer: A

Terms: Automated computer controls

Diff: Easy

Objective: LO 13-3

AACSB: Reflective thinking skills

Learning Objective 13-4

1) Which of the following is generally **not** included in the "evidence mix"?

- A) Tests of controls
- B) Substantive tests of transactions
- C) Risk assessment procedures
- D) Tests of details of balances

Answer: C

Terms: Evidence mix

Diff: Challenging

Objective: LO 13-4

AACSB: Reflective thinking skills

2) The evidence mix includes risk assessment procedures.

- A) True
- B) False

Answer: B

Terms: Evidence mix and risk assessment procedures

Diff: Moderate

Objective: LO 13-4

AACSB: Reflective thinking skills

3) The choice of which types of tests to use and how extensively they need to be performed must be the same for all audits.

- A) True
- B) False

Answer: B

Terms: Evidence mix and risk assessment procedures

Diff: Moderate

Objective: LO 13-4

AACSB: Reflective thinking skills

Learning Objective 13-5

1) The document that details the specific audit procedures for each type of test is the:

- A) audit strategy.
- B) audit program.
- C) audit procedure.
- D) audit risk model.

Answer: B

Terms: Audit program

Diff: Easy

Objective: LO 13-5

AACSB: Reflective thinking skills

2) Auditors follow a four step approach to reduce assessed control risk. Which of the following is **not** one of the four?

- A) Apply transaction related audit objectives to a class of transactions.
- B) Identify accounts that have high inherent risk.
- C) Identify key controls that reduce control risk.
- D) For potential misstatements, design appropriate substantive tests of transactions.

Answer: B

Terms: Approach to reduce assessed control risk

Diff: Moderate

Objective: LO 13-5

AACSB: Reflective thinking skills

3) When designing the audit program and the particular audit tests, the auditor should keep in mind that:

- A) the audit program is broken down into two parts-the risk assessment procedures and the tests of details of balances.
- B) the tests of controls will not vary depending on assessed control risk.
- C) analytical procedures performed during substantive testing are generally more focused and more extensive than those done as part of planning.
- D) auditing standards require that the tests contained in the audit program must be approved by the PCAOB.

Answer: C

Terms: Important consideration in developing the audit program

Diff: Moderate

Objective: LO 13-5

AACSB: Reflective thinking skills

4) When designing tests of controls and substantive tests an auditor is gathering evidence to satisfy the transaction related audit objectives. What are the four steps the auditor would normally follow to reduce assessed control risk?

Answer:

1. Apply the transaction-related audit objectives to the class of transactions being tested.
2. Identify key controls that should reduce control risk for each transaction-related audit objective.
3. Develop appropriate tests of controls for all internal controls that are used to reduce the preliminary assessment of control risk below maximum.
4. For potential types of misstatements related to each transaction-related audit objective, design appropriate substantive tests of transactions, considering deficiencies in internal control and expected results of the tests of controls.

Terms: Four-step approach to reduce assessed control risk

Diff: Moderate

Objective: LO 13-5

AACSB: Reflective thinking skills

5) Discuss the relationship of each of the following to the extent of planned tests of details of balances: (1) tolerable misstatement, (2) inherent risk, (3) control risk, and (4) acceptable audit risk.

Answer: Inherent risk and control risk are directly related to the extent of planned tests of details of balances; that is, as inherent risk and/or control risk increases, the extent of planned tests of details of balances also increases. Tolerable misstatement and acceptable audit risk are inversely related to the extent of planned tests of details of balances; that is, as tolerable misstatement and/or acceptable audit risk increases, the extent of planned tests of details of balances decreases.

Terms: Relationship of extent of planned tests of details of balances and tolerable misstatement, inherent risk, control risk, and acceptable audit risk

Diff: Challenging

Objective: LO 13-5

AACSB: Reflective thinking skills

6) Auditing standards require a written audit program.

A) True

B) False

Answer: A

Terms: Auditing standards; Audit program

Diff: Easy

Objective: LO 13-5

AACSB: Reflective thinking skills

7) When designing an audit program for tests of details of balances, the auditor should make assumptions about inherent risk and control risk, and predictions concerning the outcome of tests of controls, substantive tests of transactions, and analytical procedures.

A) True

B) False

Answer: A

Terms: Designing audit program; Inherent risk and control risk; Tests of controls, substantive tests of transactions, and analytical procedures

Diff: Easy

Objective: LO 13-5

AACSB: Reflective thinking skills

8) When testing details of balances, most audit procedures satisfy only one balance-related objective, but more than one audit procedure should be used to test each objective.

A) True

B) False

Answer: B

Terms: Testing details of balances and audit procedures

Diff: Moderate

Objective: LO 13-5

AACSB: Reflective thinking skills

9) Substantive tests of transactions and control tests are often conducted simultaneously.

A) True

B) False

Answer: A

Terms: Substantive tests of transactions and control tests

Diff: Moderate

Objective: LO 13-5

AACSB: Reflective thinking skills

10) Auditors must use considerable professional judgment to determine any change in audit procedures that can be made when the level of inherent risk is increased or decreased.

A) True

B) False

Answer: A

Terms: Audit program

Diff: Moderate

Objective: LO 13-5

AACSB: Reflective thinking skills

Learning Objective 13-6

1) Which of the following types of procedures will be performed in an audit of internal control over financial reporting?

A)

Procedures to obtain an understanding of internal control	Ratio analysis
Yes	Yes

B)

Procedures to obtain an understanding of internal control	Ratio analysis
No	No

C)

Procedures to obtain an understanding of internal control	Ratio analysis
Yes	No

D)

Procedures to obtain an understanding of internal control	Ratio analysis
No	Yes

Answer: C

Terms: Types of procedures performed in an audit of internal control

Diff: Moderate

Objective: LO 13-6

AACSB: Reflective thinking skills

Topic: Public

2) What type of test is used to obtain the most types of evidence?

A) Substantive tests of transactions

B) Tests of controls

C) Risk assessment tests

D) Tests of details of balances

Answer: D

Terms: Type of test used to obtain more types of evidence

Diff: Challenging

Objective: LO 13-6

AACSB: Reflective thinking skills

3) Which audit tests involve physical examination and confirmation?

- A) Tests of controls
- B) Tests of transactions
- C) Tests of balances
- D) Analytical procedures

Answer: C

Terms: Audit tests that involve physical examination and confirmation

Diff: Challenging

Objective: LO 13-6

AACSB: Reflective thinking skills

4) Which of the following types of evidence is **not** available when using substantive tests of transactions?

- A) Inspection
- B) Confirmation
- C) Inquiries of the client
- D) Reperformance

Answer: B

Terms: Types of evidence not available when using substantive tests of transactions

Diff: Challenging

Objective: LO 13-6

AACSB: Reflective thinking skills

5) If all transaction-related audit objectives are met, the auditor does not need to perform substantive tests of balances to determine realizable value.

- A) True
- B) False

Answer: B

Terms: Transaction-related audit objectives

Diff: Moderate

Objective: LO 13-6

AACSB: Reflective thinking skills

Learning Objective 13-7

1) Presentation and disclosure related audit objectives would be performed in which phase of the audit process?

- A) Plan and design audit approach
- B) Perform audit tests for controls and transactions
- C) Perform analytical procedures and tests of balances
- D) Complete the audit and issue the audit report

Answer: D

Terms: Presentation and disclosure related audit objective performed in what phase of audit process

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

2) Transaction related audit objectives would most likely be performed in which phase of the audit process?

- A) Plan and design audit approach
- B) Perform audit tests for controls and transactions
- C) Perform analytical procedures and tests of balances
- D) Complete the audit and issue the audit report

Answer: B

Terms: Transaction related audit objectives performed in what phase of audit process

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

3) Analytical procedures must be performed in:

- A) the planning and test of control stages.
- B) conjunction with tests of transactions and tests of details of balances.
- C) the planning and completion stages.
- D) the planning, test of control, and completion stages.

Answer: C

Terms: Analytical procedures must be performed

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

4) Which of the following tests commonly occur together?

- A) Substantive tests of transactions and tests of controls
- B) Substantive tests of transactions and obtaining an understanding of internal controls
- C) Analytical procedures and tests of controls
- D) Tests of controls and tests of details of balances

Answer: A

Terms: Tests that occur together

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

5) Tests of controls and substantive tests of transactions are an important determinant of the extent of the auditor's use of tests of details of balances. Which of the following is true?

- A) They are likely to be performed prior to the clients end of the fiscal year.
- B) They are likely to eliminate the need for tests of details of balances.
- C) They are likely to have no impact on the planned tests of details of balances.
- D) They are likely to be used only in the audit of internal control.

Answer: A

Terms: Tests of controls and substantive tests of transactions

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

6) When the auditor has completed the tests of details of balances and enters phase 4 of the audit process, she must still perform audit procedures for which of the following?

- A) Contingent liabilities and employee compensation
- B) Contingent liabilities and subsequent events
- C) Subsequent events and contractual commitments
- D) Subsequent events and unrecorded liabilities

Answer: B

Terms: Audit procedures performed in phase 4 of audit process

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

7) Which of the following audit tests would be regarded as a test of controls?

- A) Comparison of the inventory pricing to vendors' invoices
- B) Tests of the signatures on canceled checks to board of directors' authorizations
- C) Tests of the additions to property, plant, and equipment by physical inspections
- D) Review of the specific items making up the balance in a given general ledger account

Answer: B

Terms: Tests of controls audit tests

Diff: Moderate

Objective: LO 13-7

AACSB: Analytic skills

8) Which of the following audit tests form the basis for an auditor's report on internal control over financial reporting?

- A) Analytical procedures
- B) Tests of transactions
- C) Tests of controls
- D) Tests of details of balances

Answer: C

Terms: Audit tests that form basis for auditor's report on internal control

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

Topic: Public

9) Management implements internal controls to ensure that all required footnote disclosures are accurate. Auditors tests those controls to provide evidence supporting the _____ presentation.

- A) completeness and valuation
- B) completeness and accuracy
- C) rights and obligations and existence
- D) occurrence and accuracy

Answer: B

Terms: Phase 4 of audit

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

10) At what point in the audit process are tests of details most appropriately designed?

- A) Plan and design audit approach
- B) Perform audit tests for controls and transactions
- C) Perform analytical procedures and tests of balances
- D) Complete the audit and issue the audit report

Answer: C

Terms: Audit process and test of details

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

11) Which of the following is/are performed in an audit of internal control over financial reporting?

A)

Procedures to obtain an understanding of internal control	Test of details of balances	Analytical Procedures
Yes	Yes	No

B)

Procedures to obtain an understanding of internal control	Test of details of balances	Analytical Procedures
Yes	No	No

C)

Procedures to obtain an understanding of internal control	Test of details of balances	Analytical Procedures
No	Yes	Yes

D)

Procedures to obtain an understanding of internal control	Test of details of balances	Analytical Procedures
No	No	Yes

Answer: B

Terms: Audit of internal control over financial reporting

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

Topic: Public

12) Which of the following ultimately determines the specific audit procedures necessary to provide an independent auditor with a reasonable basis for the expression of an opinion?

- A) The audit program
- B) The auditor's judgment
- C) Generally accepted auditing standards
- D) The auditor's working papers

Answer: B

Terms: Determines specific audit procedures

Diff: Challenging

Objective: LO 13-7

AACSB: Reflective thinking skills

13) In phase 4 of the audit, complete the audit and issue an audit report, there are five activities required. List below the activities.

Answer:

1. Perform additional tests for presentation and disclosure
2. Accumulate final evidence
3. Evaluate results
4. Issue audit report
5. Communicate with audit committee and management

Terms: Phase 4 of audit

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

14) In accumulating final evidence upon which to base an audit opinion, the auditor should perform four activities. List the activities below.

Answer:

1. Perform final analytical procedures
2. Evaluate the going concern assumption
3. Obtain a client representation letter
4. Read information in the annual report to ensure that it is consistent with the financial statements

Terms: Accumulating final evidence and final activities

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills

15) Discuss the major activities and procedures performed by the auditor in the plan and design of the audit approach.

Answer: The major activities performed in the planning and design phase (Phase I) are:

- Accept client and perform initial planning
- Understand the clients business and industry
- Assess client business risk
- Perform preliminary analytical procedures
- Set materiality and assess acceptable audit risk and inherent risk
- Understand internal control and assess control risk
- Gather information to assess fraud risks
- Develop overall audit plan and audit program

Terms: Major activities and procedures performed by auditor in the plan and design of the audit approach

Diff: Challenging

Objective: LO 13-7

AACSB: Reflective thinking skills

16) The auditor must communicate significant deficiencies in internal control only after the entire audit is complete to ensure the auditor has a sufficient understanding of the circumstances surrounding the deficiency.

A) True

B) False

Answer: B

Terms: Auditor communicate significant deficiencies in internal control

Diff: Moderate

Objective: LO 13-7

AACSB: Reflective thinking skills