Test Bank For

Auditing An International Approach 8th Canadian Edition by Wally Smieliauskas, Amy Kwan, Kathleen Cogliano, Catherine Barrette

Chapter 1-21

Chapter 01
Introduction to Auditing

Multiple Choice Questions

1. Which of the following best describes the main reason that independent auditors report on a company's financial statements?
A. Management fraud may exist within the company and it is likely that the independent auditors will detect it.
B. Users of financial statements need confidence in the numbers they base their decisions on.
C. Misstated account balances may be corrected as the result of the independent audit work.
D. The accounting system from which the financial statements are derived may have a poorly designed system of internal control.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 Explain the importance of auditing.
Topic: 01-02 Introduction: The Concept of Auditing
Topic: 01-04 A Simple Illustration of the Importance of Auditing

2. Reducing information risk means the same as ________.
A. serving the public interest
B. monitoring economic activities
C. improving the credibility of information
D. ensuring generally accepted accounting principles are used to measure profit

Accessibility: Keyboard Navigation
Blooms: Remember
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3. In an audit engagement, the three-party accountability relationship involves all but which of entities?

A. society

B. the users

C. the auditor

D. the accountable party

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
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Topic: 01-02 Introduction: The Concept of Auditing

4. The idea of recognizing auditing as playing a bigger part of social control is known as _____.

A. Professional responsibility

B. An accountability relationship

C. The effective auditor concept

D. The audit society concept

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 Explain the importance of auditing.
Topic: 01-02 Introduction: The Concept of Auditing

5. The agency problem can be mitigated by ________.

A. greater transparency

B. a higher degree of independence

C. design of contracts

D. internal auditing

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-01 Explain the importance of auditing.
Topic: 01-05 Agency Theory and Accountability

6. The underlying conditions that create demand by users for reliable financial information include the fact that ________.

A. more reliable information will allow investors to calculate the rate of return on their investment

B. users are separated from accounting records by distance and time

C. governments rely on such information to create tax policies

D. there is a need for the expression of an opinion as to the fairness of financial statements

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 01-02 Distinguish auditing from accounting. Topic: 01-07 Accounting

7. The auditee is the person or company ________.

A. who will use the audited information

B. who performs an audit

C. who pays the audit fee

D. whose information is being audited

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 01-02 Distinguish auditing from accounting.
Topic: 01-08 More on Auditing

8. Professional judgment is a widely used concept in accounting and auditing. How is it defined in the audit standards?

A. There is no definition of professional judgment in the auditing standards.

B. Professional judgment includes consideration of key principles and concepts of disciplines underlying the professional standards, such as economics, psychology, law, finance, statistics and philosophy.

C. Professional judgment means reaching a complex decision by incorporating auditing standards, accounting standards, and rules of professional ethics in a coherent manner.

D. Professional judgment involves specialized concepts and language integrating several disciplines in order to provide appropriate justification for audit decisions.

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Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Distinguish auditing from accounting.
Topic: 01-08 More on Auditing

9. What is the primary role and responsibility of independent external auditors?
A. to prepare a company's annual financial statements and notes.
B. to perform an audit and provide an opinion on the financial statements of a company.
C. to provide business consulting advice to audit clients.
D. to obtain an understanding of a client's internal control system and prepare a report for management about control weaknesses.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 01-02 Distinguish auditing from accounting.
Topic: 01-12 Audit Objective and the Auditor's Report

10. Since financial decision makers usually obtain accounting information from companies wanting loans or selling stock, this creates a potential ________.
A. agency problem
B. conflict of interest
C. harmonization problem
D. expectations gap

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-02 Distinguish auditing from accounting.
Topic: 01-05 Agency Theory and Accountability

11. The difference between what the public expects of auditors and what auditors can actually deliver is known as ________.
A. forensics
B. an expectations gap
C. a business risk
D. an information risk

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