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QUESTION & ANSWER

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Exam : AA

Title : Audit & Insurance

Version : DEMO

1. Jones & Co is the external auditor of Blue plc, a listed company. The directors of Blue plc have requested that Jones & Co carry out a review engagement assessing the effectiveness of its corporate governance policies against the UK Corporate Governance Code.

For the above review engagement, select which part of the engagement description constitutes the subject matter?

- A. Blue plc's corporate governance policies
- B. The UK Corporate Governance Code
- C. Jones & Co
- D. The directors of Blue plc

Answer: A

2. Grey Ltd has recently discovered that it has been paying invoices in respect of goods which had been returned as faulty prior to acceptance. It is company policy to record goods only if they have been accepted.

Which of the following controls would be useful in preventing such incidence in future?

- A. Matching of purchase invoices with goods received notes
- B. Matching of purchase invoices with orders
- C. Comparison of supplier statements with payables ledger accounts
- D. Date stamping purchase invoices on receipt

Answer: A

3. Internal auditors must exercise due care if they are to meet their responsibilities for fraud detection. Thus, the existence of certain conditions should raise auditor's professional scepticism concerning possible fraud.

Which of the following is most likely to be considered as an indication of possible fraud?

- A. A new management team installed as the result of a takeover.
- B. Rapid turnover of financial executives.
- C. Rapid expansion into new markets.
- D. Tax authorities' audit of tax returns.

Answer: B

4. Rostar Ltd develops games for X-box and PCs. The unique gaming experience made the company outstandingly popular among the local customers and its last game release outperformed its expectation. This popularity leads to sudden growth in revenues that quadrupled during the last period. As a result, Rostar Ltd is now obliged to have a statutory audit for the first time.

Which of the following is not a benefit that Rostar Ltd may obtain from the statutory audit?

- A. Assurance of compliance with Companies Act
- B. Recommendations on systems via management letter
- C. Increased accountability of the IT department
- D. Independent confirmation of profits earned/net assets

Answer: C

5. Dan Lawrence is the auditor of Nava Ltd. The directors are Bernard Russell, Pauli Morin and Cyndi Clifford. They are also the only shareholders owning 35% of total shares by Russell and Morin and the

rest by Cyndi. Recent dispute between Russell and Morin arises that Dan believes may be impossible to resolve. However, Morin requested Dan to provide her with details of all last year purchases through company's accounts by Russell and Cyndi. Dan Lawrence has all the company's books and records in his office.

What would be the most appropriate action by Dan Lawrence when Pauli Morin asked him to disclose company's accounts details?

- A. Provide with all the relevant information as was requested by Pauli Morin because she has the controlling interest in the company.
- B. Decline the request of Pauli Morin even if she has the controlling interest in the company.
- C. Provide the relevant information before taking the consent from other directors.
- D. Arrange dispute resolution meeting and find a way to resolve the dispute between Russell and Morin.

Answer: B