BUSINESS FUTURE
For Auditing Accounting, Tax & Advisory

Auditing (ISA) exam: study notes and practice questions

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The exam follows an audit from acceptance to the auditor's report. Learn the purpose of each standard and the words it uses.

What the exam covers

1 Objectives, ethics and quality (ISA 200, IESBA Code, ISQM 1, ISA 220)

An audit gives reasonable, not absolute, assurance. The auditor uses professional judgement and scepticism. The IESBA Code has five principles: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. It names five threats: self-interest, self-review, advocacy, familiarity and intimidation. Firms manage quality under ISQM 1; the engagement partner under ISA 220.

2 Accepting the engagement (ISA 210)

Before accepting, confirm the preconditions: the financial reporting framework is acceptable, and management accepts its responsibility for the financial statements, for internal control and for giving access. The terms are agreed in an engagement letter.

3 Planning, risk and materiality (ISA 300, 315, 320, 240)

ISA 315 (Revised 2019) asks for an understanding of the entity, its environment, its controls and its IT, and an assessment of inherent and control risk at assertion level. Materiality is set for the statements as a whole; performance materiality is lower. Fraud: revenue recognition is a presumed risk that can be rebutted. Management override cannot be rebutted, so journal entries are always tested.

4 Responses and evidence (ISA 330, 500, 505, 520, 530, 540)

Respond with tests of controls and substantive procedures. Evidence must be sufficient and appropriate. External evidence is more reliable than internal, written more than oral, original more than copies. Confirmations, analytical procedures, sampling and auditing estimates each have their own standard.

5 Using the work of others (ISA 402, 600, 610, 620)

The auditor can use the work of internal audit, an expert or a service organisation's auditor only after evaluating it. The auditor keeps sole responsibility for the opinion. Group audits follow ISA 600 (Revised), with the group engagement team directing component work.

6 Completion (ISA 450, 560, 570, 580, 260, 265)

Accumulate the misstatements found and ask for them to be corrected. Look for events up to the date of the report. Going concern: if management's assessment covers less than twelve months from the date of the financial statements, ask them to extend it. Obtain written representations. Report

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significant control deficiencies in writing to those charged with governance.

7 The auditor's report (ISA 700, 701, 705, 706)

Unmodified opinion when the statements are fairly presented. Qualified ('except for') when a matter is material but not pervasive. Adverse when a misstatement is material and pervasive. Disclaimer when the auditor cannot get enough evidence and the possible effect is material and pervasive. Key audit matters are required for listed entities. Emphasis of matter does not change the opinion.

8 Documentation and the UAE rules (ISA 230)

Working papers must let an experienced auditor understand what was done, the evidence and the conclusions. The file is assembled soon after the report and kept for at least five years. In the UAE, only auditors licensed and registered with the Ministry of Economy may sign audit reports.

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Practice questions

1 **The auditor finds a misstatement that is both material and pervasive. Which opinion is given?**

A) Qualified
B) Adverse
C) Disclaimer
D) Unmodified with emphasis of matter

2 **The auditor cannot attend the inventory count and has no alternative. The effect is material but not pervasive. Which opinion?**

A) Qualified (except for)
B) Adverse
C) Disclaimer
D) Unmodified

3 **True or false: the risk of management override of controls can be rebutted when controls are strong.**

A) True
B) False

4 **Which evidence is normally the most reliable?**

A) A photocopy of a supplier invoice from the client
B) An oral explanation from the finance manager
C) A bank confirmation sent directly to the auditor
D) A client-prepared reconciliation

5 **The same engagement partner has audited a client for many years and is close to its directors. Which threat is this?**

A) Self-review
B) Advocacy
C) Familiarity
D) Intimidation

6 **Select all that apply: which are preconditions for an audit under ISA 210?**

A) An acceptable financial reporting framework
B) Management accepts responsibility for the financial statements
C) Management accepts responsibility for internal control
D) The auditor guarantees the statements are free from fraud

7 **Why is performance materiality set below overall materiality?**

A) To reduce audit fees
B) To reduce to an appropriately low level the chance that uncorrected and undetected misstatements together exceed materiality
C) Because the law requires it
D) To avoid testing controls

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8 **How must significant deficiencies in internal control be communicated?**

A) Orally to the accountant
B) In writing to those charged with governance, on time
C) Only in the auditor's report
D) They need not be communicated

9 **For which audits are key audit matters required?**

A) Every audit
B) Audits of listed entities' general purpose financial statements
C) Only bank audits
D) Only when the opinion is modified

10 **Management's going concern assessment covers only 8 months from the year end. What should the auditor do?**

A) Issue a disclaimer at once
B) Ask management to extend it to at least twelve months
C) Ignore it
D) Do the assessment for management

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Answer — Practice questions

1. Answer (B): A material and pervasive misstatement leads to an adverse opinion (ISA 705).
2. Answer (A): Not enough evidence and a material, not pervasive effect gives a qualified opinion.
3. Answer (B): ISA 240 treats management override as a risk in every audit. Only the revenue recognition presumption can be rebutted.
4. Answer (C): Evidence obtained directly by the auditor from an independent source is the most reliable.
5. Answer (C): Long association creates a familiarity threat.
6. Answer (A, B, C): An audit gives reasonable assurance only; nobody can guarantee the absence of fraud.
7. Answer (B): That is the purpose stated in ISA 320.
8. Answer (B): ISA 265 requires written communication to those charged with governance.
9. Answer (B): ISA 701 requires key audit matters for listed entities; others may include them voluntarily.
10. Answer (B): ISA 570 requires the auditor to ask management to extend the assessment period.

This guide is general study material. It is not legal or tax advice, and it does not replace the ACCA course. Laws and standards change: always check the current text.

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