Open Competition EPSO/A/1-10/03
Assistant administrators (A8)

Test (a)
Test comprising a series of multiple choice questions to test the candidate's knowledge in the chosen field
Field 4- Audit

1. Which of the following is **not** an accounting principle presented in the Fourth Council Company Law Directive (No 78/660/EEC of 25 July 1978)?

   a) Going-concern principle
   b) Principle of prudence
   c) Principle of separate valuation
   d) Principle of equilibrium

2. Audit information is usually considered relevant when it is:

   a) derived from valid statistical sampling
   b) objective and unbiased
   c) factual, adequate and convincing
   d) consistent with the audit objectives

3. With rising prices profit is most likely to be overstated if which of the following stock valuation policies is used:

   a) LIFO
   b) HIFO
   c) FIFO
   d) Average cost method

4. Which of the following statements is **not** correct if the aim is to calculate the cash-flow according to the 1995 Statement of Financial Accounting Standards (SFAS)?

   a) Depreciation is added to operating profit
   b) Gains from property sales are deducted from operating profit
   c) Debts repaid are deducted from operating profit
   d) Dividends paid are added to operating profit

5. Which of the following is **not** an objective of the audit planning procedure?

   a) To set out the way in which the objectives and other priorities will be achieved
   b) To define how the audit evidence necessary to achieve the objectives will be obtained
   c) To perform data analysis to identify major weaknesses
   d) To identify the resources that will be needed and actually employed in audits

6. At the reporting stage the auditor would use the materiality threshold to:
   1. determine the extent of testing needed to obtain sufficient audit evidence
   2. evaluate the importance of errors and irregularities uncovered
   3. determine whether or not he intends to express reservations about the Financial Statements
   4. assess the accuracy and completeness of the Financial Statements of the entity being audited.

   Which of the following combinations is correct?

   a) both 1 and 2
   b) both 1 and 3
   c) both 2 and 3
   d) both 2 and 4

7. The Council Directive relating to Company Law and dealing with the approval of persons responsible for carrying out the statutory audits of accounting documents is the:

   a) First Directive
   b) Fourth Directive
   c) Seventh Directive
   d) Eighth Directive

8. Which of the following reports by the European Court of Auditors are **not** obligatory?

   a) Annual Reports on the implementation of the budget
   b) Reports on the closure of their accounts by the Community's Agencies
   c) Reports on the European Development Fund
   d) Special Reports on the Structural Funds

9. During the testing stage, an auditor may use the work of other auditors and experts to:

   a) provide himself with information about potential strengths and weaknesses in systems of control
   b) reduce the amount of work undertaken by the auditor and thus release resources for other audit tasks
   c) provide the auditor with information about any history of serious errors that have arisen in the audit field
   d) better estimate the level of risk in any substantive tests to be carried out

10. Council Regulation (EC, ECSC, Euratom) No 762/2001 of 9 April 2001 was adopted to:

    a) separate the functions of internal audit from ex ante financial control
    b) install an ex ante financial control system
    c) install an accounting control system
    d) install an ex post financial control system

11. Indicate which statement is **not** correct:
    The Commission's Audit Progress Committee :

    a) ensures the independence of the Internal Audit Service
    b) monitors the validity of the audit recommendations of the European Court of Auditors
    c) is an advisory body with no operational powers
    d) proposes to the European Commission the independent periodic review of the work of the Internal Audit Service

12. The European Commission's Internal Audit Service may **not**:

    a) highlight problems reported to management
    b) make recommendations to management for solutions
    c) enforce the adoption of recommendations made
    d) follow-up the implementation of recommendations made

13. Indicate which statement is **not** correct :
    Internal Audit is:

    a) an independent and objective assurance activity designed to add value and to improve an organisation's operations
    b) the whole system of financial and other controls, including the organisational structure, methods and procedures, to assist in conducting the business of the controlled entity
    c) an assurance from internal sources that the internal controls are achieving their objectives
    d) a help to an organisation to achieve its objectives by bringing a systematic approach to evaluating and to improving the effectiveness of risk management and control

14. Which type of audit is **not** normally performed by Internal Audit services?

    a) Regularity audit
    b) Systems-based audit
    c) Performance audit
    d) Financial audit

15. Materiality threshold is defined as the maximum tolerance level of errors identified after verification of a sample. Audit risk is the probability of existing errors not being identified by the auditors. Which of the following statements is **not** correct?

    a) The higher the materiality threshold, the lower the audit risk
    b) Materiality and audit risk are inversely proportional
    c) The lower the materiality threshold, the higher the audit risk
    d) Materiality and audit risk are not related

16. What is **not** included under the audit term "substantive procedures"?

    a) Tests made to obtain evidence of material errors
    b) A general strategy and detailed approach concerning the nature, programming and extent of the audit
    c) Analytical procedures to analyse trends and fluctuations
    d) Tests of the details of the transactions

17. In order to draw conclusions from a sample for an entire population:

    a) the sample must be adequate for the audit objectives
    b) the sample must be exhaustive, which means that all elements of the whole population are represented
    c) the sample must be stratified, which means that subdivisions are made based upon specific characteristics such as value
    d) other factors such as risk and materiality related to each of the layers of the population have to be considered

18. If, before considering the internal controls at the audited entity, there is a high probability of certain errors in the financial statements, we particularly speak of:

    a) a high sampling risk
    b) a high inherent risk
    c) a high control risk
    d) a high detection risk

19. The risk that errors in the financial statements may **not** be detected or corrected by the internal control system of the audited entity is:

    a) the audit risk
    b) the inherent risk
    c) the control risk
    d) the detection risk

20. What is **not** part of a systems-based audit approach?

    a) Identification of the key controls to assess the extent to which the auditors may rely on them
    b) Tests of control on identified key controls
    c) Using tests of control to draw conclusions concerning the internal control system
    d) A maximum number of substantive testing procedures on the transactions