



## AUDIT AND TAX COMPLIANCE

### SAMPLE QUESTIONS

#### SECTION A

1. Maintaining independence and objectivity is vital to effective reporting of internal audit findings. With this objective in mind, place the following four options for internal audit reporting in order of preference from most to least preferred.

- A) The operational manager whose service has been audited;
- B) The Chief Executive of the organisation;
- C) The Finance Director of the organisation;
- D) The audit committee.

2. Which of the following duties is only likely to be carried out by an auditor of a public sector body, and not by an auditor of a private company?

- A) The identification of errors detected in the financial statements.
- B) The review of the effectiveness of internal controls relating to the financial statements.
- C) The assessment of the impact of fraud and error on the financial statements.
- D) A review of reported performance indicators.

3. A public hospital has failed to apply accounting standards correctly in that it has not made provisions for cost overruns in respect of a building scheme which commenced during the financial year.

Which of the following responses is **LEAST** likely to be chosen by the auditor?

- A) Adverse opinion.
- B) An unqualified audit opinion.
- C) Qualified opinion on the basis of misstatement.
- D) Disclaimer opinion.

4. Which of the following should the auditor look at in order to understand the client:

- i) The industry.
- ii) Competition.
- iii) Technology.
- iv) Laws & Regulations.
- v) Stakeholders.

- A. iii) only
- B. All of the above
- C. i) ii) & iv) only
- D. i) & iii) only

5. Which one of the following fundamental principles of professional conduct is under threat when an accountant prepares an advertisement comparing the quality of their work with that of other accountants in the local region?

- A. objectivity
- B. professional behaviour
- C. professional scepticism
- D. professional competence and due care

6. Which of the following are self-interest threats to objectivity? Select which two options are correct.

- A. receiving gifts from clients
- B. competing directly with the client
- C. personal friendship with the CEO and CFO of the client
- D. auditing a client when your firm redesigned the internal control system in the previous year

7. Which of the following statements are correct?

Select which two options are correct.

- A. Professional scepticism implies an expectation of fraud or error, so is a biased viewpoint.
- B. The level of professional scepticism needs to be maintained throughout the whole engagement.
- C. Professional scepticism is important in considering management's explanations for unusual trends.
- D. The level of professional scepticism can be reduced where the auditor has past experience with the entity indicating the honesty and integrity of management.

8. Which of the following statements are true? Select which two options are correct.

- A. Reviews of historical financial information are limited assurance engagements.
- B. A review engagement does not ordinarily require tests of accounting records through inspection, confirmation and observation.
- C. A practitioner who is the auditor of an entity cannot also carry out a review engagement for the same client in the same year.
- D. A common form of expression for a review engagement is 'The financial statements are prepared in accordance with the [appropriate accounting] framework'

9. Which one of the following is most likely to be a direct engagement?

- A a performance audit
- B a financial statement audit
- C a review of prospective financial information
- D an assurance engagement of a sustainability report which was prepared by management

10. What type of threat to professional independence identified in the Code of Ethics for Professional Accountants is created when the auditor is given a discount on wine purchases by a client that operates a winery?

- A. financial threat
- B. self-review threat
- C. self-interest threat
- D. intimidation threat

11. According to ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, reasonable assurance is obtained when the auditor has reduced audit risk to

- A. a reasonable level.
- B. an acceptable level.
- C. a reasonably low level.
- D. an acceptably low level

12. Which one of the following does not necessarily constitute fraud?

- A. Alteration of accounting records from which the financial statements are prepared
- B. Overriding internal controls to record transactions outside the usual course of an entity's business.
- C. Intentional omission from the financial statements of transactions or other significant information.
- D. Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation or disclosure.

13. An audit report should contain which of the following?

- (A) Audit findings
- (B) Root cause analysis
- (C) Corrective action
- (D) Re-audit schedule

14. The core activities of a tax administration are centered around the enforcement of .....and regulations.

- A. Tax regime
- B. Tax legislation
- C. Tax mandate
- D. Tax bill

15. All the following factors affect the sanctity of an effective tax administration system except?

- A. Economic factors
- B. Political factors
- C. Technological factors
- D. Binary factors

State whether the following statements are **TRUE or FALSE**

16. Ethical standards and rules of conduct for employees should also be set down in writing, and every employee of the Tax Administration should be trained both in the rights of taxpayers and in the rules of conduct to which they are expected to adhere.

- A. True
- B. False

17. Many tax administrations have adopted the mission of voluntary compliance.

- A. True
- B. False

18 Tax autonomy does not often have a statutory basis.

- A. True
- B. False

19. Risk assessment is an integral part of a tax Administration.

- A. True
- B. False

20. The record-compilation function, comprising identification and registration of taxpayers, are the only components of tax identification.

- A. True
- B. False

## SECTION B

1. "Strategic performance and the determination of critical success factors are the result of an environment analysis and an analysis of the strong and weak points in an organization's tax strategy." With the aid of a diagram, describe the effective tax strategy an organization can adopt using its environmental factors.

2. Discuss the importance of tax identification number as a cardinal element in tax compliance.

3. You are an internal audit manager in a central government department that pays subsidies to agricultural businesses involved in the production of basic foodstuffs. You will soon be undertaking an internal audit of the claims processing unit in your department. In preparation for the assignment you are reviewing the audit file on the previous audit carried out three years earlier.

You find the following extract from one of the previous internal audit's planning schedules:

*"The unit receives periodic subsidy claims from agricultural businesses on form S100, together with the documentary evidence required to support the claim.*

*These forms are given a unique reference number on receipt and the details of the claim are recorded in a computerised register by the claims clerk.*

*The claim forms and the documentary evidence are examined by a case officer, who approves the claim for payment by completing the relevant section of the computer record, once they have verified the completeness and validity of the documentary evidence provided.*

*The claims unit supervisor receives a weekly schedule of claims approved for payment and carries out a pre-payment review of a specified percentage of claims according to a number of claims value bandings.*

*The internal audit review in this area will take the form of a stratified sample of claim forms according to value drawn from the computer register of approved claims. These sample claim forms will be verified by reference to the supporting documentary evidence provided by the claimant."*

After considering this extract, you are concerned that the approach taken previously was more appropriate for an external rather than an internal audit, and you decide to design a new suite of tests for the upcoming audit.

### Required

a. Describe **one** inherent risk, **one** control risk and **one** detection risk relating to the claims processing system.

b. Discuss the view that audit activity adopted in the previous audit was more appropriate for an external, rather than an internal audit.

c. Briefly describe the main categories of risk associated with major capital contracts in the public services

**4. State with reasons (in short) whether the following statements are True or False.**

- i) Procedural error arises as a result of transactions having been recorded in a fundamentally incorrect manner.
- (ii) When inherent and control risks are low, an auditor can accept a lower detection risk
- (iii) Audit procedure and Audit technique are not one and same thing.
- (iv) An auditor can be appointed as first auditor of a newly formed company simply because his name has been stated in the Articles of Association.
- (v) AAS-24 deals with responsibility of the auditor of the service organisation.
- (vi) Interest accrued but not due on "Secured loans" is required to be shown under appropriate sub-heads under the head "Secured loans".
- (vii) For the purpose of AAS-10 "Principal Auditor" means the partner of the firm signing the Audit report.
- (viii) The term 'fund' and 'reserve' can be used interchangeably.
- (ix) An expert for the purpose of AAS-9 is a person, firm or association of persons possessing special skill, knowledge and experience in auditing.
- (x) All the joint auditors are jointly and severally responsible for the work, which is not divided and carried on jointly by all the joint auditors.