

ACA ICAEW Audit and Assurance Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

- 1. How is money laundering defined?**
 - A. As the process of legalizing all funds**
 - B. A process that disguises the origins of funds from criminal conduct**
 - C. A method for increasing the value of funds**
 - D. An approach to evade taxes on income**
- 2. What is the primary purpose of an engagement quality control review?**
 - A. To monitor clients' payments**
 - B. To provide training for audit teams**
 - C. To evaluate significant judgments made in the audit**
 - D. To ensure compliance with billing standards**
- 3. How is material and pervasive matter defined?**
 - A. As matter confined to specific elements of the financial statements**
 - B. As matter representing a substantial proportion of the financial statements**
 - C. As matter not fundamental to user understanding**
 - D. As matter of minor relevance to the financial statements**
- 4. What is one of the auditor's responsibilities after the audit sign-off?**
 - A. Seek legal action if material misstatements are found**
 - B. Discuss findings with clients only**
 - C. Ignore new information about events**
 - D. React to new knowledge of events requiring disclosure or adjustment**
- 5. How should an ethical dilemma be approached?**
 - A. By providing a definitive solution immediately**
 - B. By analyzing the situation without discussing possible threats**
 - C. By discussing the ethical threats and proposing safeguards**
 - D. By rebutting the ethical issue presented**

- 6. Why is it important to establish informed management when providing non-audit services?**
- A. To solicit client feedback throughout the process**
 - B. To ensure independence and objectivity**
 - C. To justify fees charged for services**
 - D. To create a competitive advantage**
- 7. What must an audit firm consider when analyzing risk before accepting an engagement?**
- A. Client's previous auditor fee**
 - B. High-risk areas identified**
 - C. The firm's internal policies**
 - D. Prospective client's marketing strategies**
- 8. Which of the following is NOT a key indicator for fraud as set out by ISA 240?**
- A. Incentives/pressure**
 - B. Opportunities**
 - C. Organizational culture**
 - D. Attitudes/rationalizations**
- 9. Which of the following is a benefit of audits for small owner-managed businesses?**
- A. They simplify tax reporting**
 - B. They provide independent scrutiny by professionals**
 - C. They eliminate the need for financial statements**
 - D. They increase operational costs**
- 10. What must auditors consider regarding sustainability impacts in their reports?**
- A. Implications of their personal beliefs on sustainability**
 - B. The financial condition of the company's shareholders**
 - C. Non-compliance with relevant laws and regulations**
 - D. Recent trends in climate change among their peers**

Answers

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1. B
2. C
3. B
4. D
5. C
6. B
7. B
8. C
9. B
10. C

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Explanations

1. How is money laundering defined?

- A. As the process of legalizing all funds
- B. A process that disguises the origins of funds from criminal conduct**
- C. A method for increasing the value of funds
- D. An approach to evade taxes on income

Money laundering is best defined as a process that disguises the origins of funds derived from criminal conduct. This process typically involves three stages: placement, layering, and integration. In the placement stage, illegally obtained funds are introduced into the financial system. Layering involves separating the illicit money from its source through a series of complex transactions designed to obscure its origin. Finally, in the integration stage, the laundered funds are reintroduced to the economy as seemingly legitimate money, making it difficult for authorities to trace back to the original criminal activities. Defining money laundering in terms of legalizing funds or as a method for increasing the value of funds does not capture the essence of the activities undertaken in laundering. Money laundering is fundamentally about concealing the illicit nature of the funds rather than making the funds legal outright or increasing their value. Additionally, suggesting that money laundering is a method to evade taxes on income limits the broader scope of the process, which encompasses a variety of criminal proceeds beyond tax evasion. Thus, the definition emphasizing the disguising of origins from criminal conduct captures the core purpose and mechanisms of money laundering most accurately.

2. What is the primary purpose of an engagement quality control review?

- A. To monitor clients' payments
- B. To provide training for audit teams
- C. To evaluate significant judgments made in the audit**
- D. To ensure compliance with billing standards

The primary purpose of an engagement quality control review is to evaluate significant judgments made in the audit. This process involves a thorough assessment conducted by an independent reviewer, who examines the key decisions and judgments that have been made during the audit engagement. Such evaluations are crucial as they help ensure the audit provides a true and fair view of the financial statements. This review acts as a safeguard to enhance the quality of the audit, particularly for high-risk areas or where subjective judgment is involved. By focusing on significant judgments, the quality control review helps to maintain high professional standards and integrity within the audit process. In contrast, monitoring clients' payments, providing training for audit teams, or ensuring compliance with billing standards do not align with the core objective of the quality control review. While these aspects are important in the broader context of managing an audit firm and client relationships, they do not address the critical goal of upholding the quality and reliability of the audit outcomes, which is the focus of the engagement quality control review.

3. How is material and pervasive matter defined?

- A. As matter confined to specific elements of the financial statements
- B. As matter representing a substantial proportion of the financial statements**
- C. As matter not fundamental to user understanding
- D. As matter of minor relevance to the financial statements

Material and pervasive matter refers to items or issues within financial statements that are significant enough to influence the decisions of users relying on those statements. In this context, the correct understanding is that such matter represents a substantial proportion of the financial statements, meaning that it can impact the overall perception of an entity's financial health and results. When users evaluate the financial statements, they do so with the intent of understanding the economic reality of the entity. If a matter is substantial, it captures attention and could potentially alter a user's decision. Therefore, recognizing material and pervasive matters as those that constitute a significant part of the financial statements is essential for auditors and preparers of financial information, as it guides the focus of audits and enhances the reliability of the reporting process. In contrast, other options refer to aspects of the financial statements that lack significant weight or importance. Matters confined to specific elements may not affect the statements as a whole, while items deemed not fundamental to user understanding or of minor relevance do not carry the weight that would classify them as material and pervasive. The distinction between significant and less significant matters is crucial for accurate assessment and reporting in audit practice.

4. What is one of the auditor's responsibilities after the audit sign-off?

- A. Seek legal action if material misstatements are found
- B. Discuss findings with clients only
- C. Ignore new information about events
- D. React to new knowledge of events requiring disclosure or adjustment**

After the audit has been signed off, one of the auditor's key responsibilities is to react to any new knowledge of events that may require disclosure or an adjustment in the financial statements. This obligation arises from the principle of ensuring that the financial statements presented to stakeholders remain accurate and reliable, particularly in light of information that could impact the users' understanding of the entity's financial position or performance. New information that surfaces after the date of the auditor's report can significantly affect the interpretation of the financial results. This could include events occurring between the audit report date and the issuance date of the financial statements, which may indicate that the financial statements are not free from material misstatements or may necessitate further disclosures. Reacting appropriately ensures that users of the financial statements are informed and that the integrity of the audit is maintained. The other options do not align with the auditor's responsibilities following sign-off. Seeking legal action is not a standard role for auditors in the context of their responsibilities after an audit is completed. Discussing findings only with clients may limit the scope of necessary communication to stakeholders and the public. Ignoring new information about events contradicts the auditor's duty to uphold the credibility and accuracy of financial reporting. Thus, reacting to new knowledge is the most appropriate

5. How should an ethical dilemma be approached?

- A. By providing a definitive solution immediately
- B. By analyzing the situation without discussing possible threats
- C. By discussing the ethical threats and proposing safeguards**
- D. By rebutting the ethical issue presented

An ethical dilemma should be approached by discussing the ethical threats involved and proposing safeguards. This method recognizes that ethical dilemmas often have multiple facets and potential consequences that must be carefully considered. Addressing the ethical threats allows individuals to identify specific areas of concern, such as conflicts of interest, pressure from stakeholders, or potential breaches of professional standards. Once these threats are clearly articulated, proposing safeguards helps in developing practical measures that can mitigate the risks associated with the dilemma. This could include implementing policies, ensuring transparency, or involving oversight to uphold ethical standards. Engaging in this thorough analysis ensures that all relevant factors are considered, promoting a well-rounded understanding of the situation. It facilitates a dialogue that can lead to more informed decision-making and helps uphold the integrity of the profession. In contrast, rushing to provide a definitive solution or failing to discuss threats overlooks the complexity of ethical issues, while rebutting the ethical issue may dismiss legitimate concerns that require careful consideration.

6. Why is it important to establish informed management when providing non-audit services?

- A. To solicit client feedback throughout the process
- B. To ensure independence and objectivity**
- C. To justify fees charged for services
- D. To create a competitive advantage

Establishing informed management is critical when providing non-audit services because it ensures independence and objectivity in the audit process. When management is informed, it means they are fully aware of the implications and potential risks of the services being provided. This awareness helps to maintain a clear boundary between the roles of the auditor and management, which is essential for preserving the integrity of the audit. Independence is vital for auditors as it underpins the credibility of the audit opinion. If auditors are involved in providing non-audit services without proper management oversight, they may inadvertently compromise their objectivity. Clear communication and understanding among management regarding the scope and nature of these services help to avoid conflicts of interest and potential biases that could affect the auditor's judgment. In contrast, while soliciting client feedback can be beneficial for service improvement, justifying fees charged is more about the financial aspect rather than the governance and ethical framework of the audit process. Likewise, while creating a competitive advantage may be a secondary benefit, it doesn't address the core requirement of maintaining independence and objectivity in the audit function. Thus, ensuring informed management directly supports the foundational principles of the auditing profession, which is why this approach is paramount when non-audit services are provided.

7. What must an audit firm consider when analyzing risk before accepting an engagement?

- A. Client's previous auditor fee**
- B. High-risk areas identified**
- C. The firm's internal policies**
- D. Prospective client's marketing strategies**

When an audit firm analyzes risk before accepting an engagement, it is crucial to focus on high-risk areas identified within the client's operations and financial reporting. These high-risk areas may include components such as complex transactions, significant estimates, or volatile markets that could impact the financial statements. Understanding the risk profile helps the audit firm assess the potential for material misstatement and the level of effort required to conduct the audit effectively. Identifying these risks allows the audit firm to determine whether they have the expertise and resources necessary to manage the identified risks, set an appropriate audit strategy, and ultimately provide a high-quality audit. By prioritizing the evaluation of these high-risk components, the firm can ensure that they are engaging with a client where they can effectively mitigate risks, adhere to compliance, and uphold their professional obligations. This consideration is fundamental in maintaining the integrity of the audit process and ensuring robust financial reporting. While other factors, such as the firm's internal policies or the client's previous relationships with auditors, may inform the decision-making process, they do not directly address the inherent risks associated with the potential engagement as significantly as the identification of high-risk areas does. Therefore, recognizing and analyzing these high-risk areas is essential for a thorough risk assessment before accepting an audit engagement.

8. Which of the following is NOT a key indicator for fraud as set out by ISA 240?

- A. Incentives/pressure**
- B. Opportunities**
- C. Organizational culture**
- D. Attitudes/rationalizations**

The correct answer identifies "organizational culture" as not being explicitly listed as a key indicator for fraud in ISA 240. The International Standard on Auditing (ISA) 240 highlights three specific conditions that are commonly recognized as key indicators of fraud: incentives/pressures, opportunities, and attitudes/rationalizations. Incentives or pressures refer to the motivations that might drive individuals to commit fraud, such as financial difficulties or personal pressures. Opportunities encompass the circumstances that allow fraud to occur, like weak internal controls. Attitudes or rationalizations pertain to how individuals justify unethical behaviors, allowing fraud to take place without guilt. While organizational culture can certainly influence the likelihood of fraudulent behavior within an organization, it is broader and more complex than the specific conditions outlined in ISA 240. This makes it a significant factor to consider in a general discussion about fraud prevention and detection, but not a core key indicator as defined by this particular standard. Therefore, recognizing the explicit focus of ISA 240 is crucial when analyzing fraud risk factors.

9. Which of the following is a benefit of audits for small owner-managed businesses?

- A. They simplify tax reporting**
- B. They provide independent scrutiny by professionals**
- C. They eliminate the need for financial statements**
- D. They increase operational costs**

The benefit of audits for small owner-managed businesses being independent scrutiny by professionals is significant. This scrutiny enhances the credibility and reliability of the financial statements. When an auditor reviews the financial records, they provide an objective perspective, ensuring that the financial statements are free from material misstatement, whether due to fraud or error. This independence is crucial because it assures stakeholders, such as investors, banks, and suppliers, that the financial information presented is accurate and trustworthy. Moreover, this independent verification can uncover discrepancies or inefficiencies in accounting practices, leading to improved financial management. It also fosters transparency, which can enhance the business's reputation and stakeholder trust. The results of the audit may provide valuable insights and recommendations for improving financial operations, which is particularly beneficial for small businesses that might lack the resources for robust internal controls. In contrast to this beneficial aspect, audits do not simplify tax reporting, do not eliminate the need for financial statements, and generally are associated with costs rather than reducing operational costs. Thus, the primary advantage of audits lies in their ability to offer an objective, professional examination of financial reports, contributing to greater confidence in the accuracy of those reports.

10. What must auditors consider regarding sustainability impacts in their reports?

- A. Implications of their personal beliefs on sustainability**
- B. The financial condition of the company's shareholders**
- C. Non-compliance with relevant laws and regulations**
- D. Recent trends in climate change among their peers**

When auditors evaluate sustainability impacts in their reports, a critical factor they must consider is non-compliance with relevant laws and regulations. This aspect is essential because ensuring compliance with laws directly affects the integrity and reliability of the financial statements and the overall sustainability of the organization. Non-compliance can lead to legal ramifications, financial penalties, and reputational damage for an organization, which in turn can impact its sustainability practices and disclosures. Auditors are tasked with providing reasonable assurance that the company's financial reporting includes proper adherence to relevant laws and regulations affecting sustainability. This includes regulations pertaining to environmental laws, labor laws, and any other legislation that may impact the company's operations and its sustainable practices. Failure to address non-compliance issues could mislead stakeholders regarding the company's commitment to sustainability, hence auditing firms take this consideration very seriously in their reporting. The other options do not directly impact the auditor's responsibility to report on sustainability impacts. Personal beliefs, shareholder financial conditions, or trends among peers may inform an auditor's perspective but do not form the basis of compliance and regulatory reporting necessary for accurate audits. Thus, focusing on non-compliance with laws and regulations is crucial in ensuring that sustainability impacts are appropriately reflected in audit reports.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://acaicaewauditassurance.examzify.com>

We wish you the very best on your exam journey. You've got this!