

# Auditing Theory Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Table of Contents

<b>Copyright</b> .....	<b>1</b>
<b>Table of Contents</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>3</b>
<b>How to Use This Guide</b> .....	<b>4</b>
<b>Questions</b> .....	<b>5</b>
<b>Answers</b> .....	<b>8</b>
<b>Explanations</b> .....	<b>10</b>
<b>Next Steps</b> .....	<b>16</b>

SAMPLE

# 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**

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- 1. What type of threat to independence is created by family relationships between assurance team members and influential clients?**
  - A. Self-interest threats**
  - B. Familiarity threats**
  - C. Intimidation threats**
  - D. All of the above**
- 2. When inherent risk is high, what is required concerning audit risk?**
  - A. A lower level of evidence accumulation**
  - B. A higher assessment of control risk**
  - C. A lower assessment of audit risk**
  - D. A higher level of evidence accumulation**
- 3. Which of the following is NOT a type of assurance engagement?**
  - A. Review engagement**
  - B. Compilation engagement**
  - C. Audit engagement**
  - D. Evaluation engagement**
- 4. What is one of the limitations of reasonable assurance in auditing?**
  - A. It does not involve testing all transactions**
  - B. It ensures a thorough examination of records**
  - C. It guarantees absolute accuracy**
  - D. It requires multiple auditors to perform the engagement**
- 5. Which scenario represents a violation of the Implementing Rules and Regulations of RA 9298?**
  - A. Continuing a firm under a deceased partner's name for five years.**
  - B. Omitting a partner's name from the business name.**
  - C. Continuing a sole proprietorship after a partner's death.**
  - D. Having ten other partners in the firm, all of them CPAs.**

**6. What type of assurance engagement involves the practitioner expressing a positive form of conclusion?**

- A. Limited assurance engagement**
- B. Negative assurance engagement**
- C. Reasonable assurance engagement**
- D. Verification assurance engagement**

**7. How frequently can media-covered events be held to celebrate a professional accountant's anniversaries without violating advertising rules?**

- A. Every 3 years**
- B. Every 5 years**
- C. Every 10 years**
- D. Every 2 years**

**8. What is one of the overall objectives of an auditor in conducting an audit of financial statements?**

- A. To obtain reasonable assurance that there are no misstatements**
- B. To perform a comprehensive review of accounts**
- C. To provide subjective evidence of the financial condition**
- D. To detect all misstatements due to fraud or error**

**9. Which type of audit focuses on compliance with laws and regulations?**

- A. Financial audit.**
- B. Compliance audit.**
- C. Operational audit.**
- D. Internal audit.**

**10. What potential independence threat is associated with litigation support services estimating outcomes affecting financial statement disclosures?**

- A. Self-interest threat**
- B. Intimidation threat**
- C. Self-review threat**
- D. Familiarity threat**

## **Answers**

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

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## **Explanations**

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**1. What type of threat to independence is created by family relationships between assurance team members and influential clients?**

- A. Self-interest threats**
- B. Familiarity threats**
- C. Intimidation threats**
- D. All of the above**

The situation described involves family relationships between assurance team members and influential clients, which can lead to several independence threats. Familiarity threats arise when there is a close relationship, such as familial ties, because this can lead to a lack of professional skepticism and objectivity. Team members may become too comfortable, resulting in biased evaluations or favoritism towards the client. Moreover, self-interest threats can also occur in this context. If a team member has a family connection with an influential client, there may be an implied expectation to act in a way that benefits that client, risking the auditor's objectivity and impartial judgment. Intimidation threats may also arise from these relationships, particularly if the family member holds a significant power position within the client organization. The assurance team member might feel pressured to conform to the client's expectations rather than maintain independence and uphold professional standards. Thus, the correct choice encompasses all these potential threats to independence, highlighting how complex relationships can undermine the integrity of the auditing process. Recognizing these threats is critical for maintaining ethical standards and ensuring the quality of audits.

**2. When inherent risk is high, what is required concerning audit risk?**

- A. A lower level of evidence accumulation**
- B. A higher assessment of control risk**
- C. A lower assessment of audit risk**
- D. A higher level of evidence accumulation**

When inherent risk is high, a higher level of evidence accumulation is necessary in the audit process. Inherent risk refers to the susceptibility of an entity's financial statements to material misstatements due to factors like the nature of the business, the complexity of transactions, or economic conditions, without considering the effectiveness of internal controls. When inherent risk increases, the likelihood of material misstatements also increases, which prompts auditors to gather more substantial evidence to ensure that the financial statements are free from material misstatement. This higher level of evidence is crucial because it helps the auditor to adequately address the elevated risk of error and provide a reasonable assurance regarding the fairness of the presented financial statements. This response to high inherent risk contrasts with other potential actions, such as adjusting control risk or audit risk, which do not comprehensively address the necessity for evidence when inherent risk is significant. Therefore, accumulating a greater volume of evidence is essential to mitigate the risk posed by high inherent risk, confirming that the auditor has enough information to make reliable conclusions about the financial statements' integrity.

**3. Which of the following is NOT a type of assurance engagement?**

- A. Review engagement**
- B. Compilation engagement**
- C. Audit engagement**
- D. Evaluation engagement**

In the context of assurance engagements, they are designed to enhance the degree of confidence of intended users in the outcome of an evaluation or measurement of a subject matter against criteria. Review, compilation, and audit engagements are well-recognized forms of assurance services provided by auditors. A review engagement typically involves limited procedures and provides a moderate level of assurance, where the auditor expresses limited assurance on the financial statements. An audit engagement, on the other hand, involves a complete examination, providing a very high level of assurance through extensive testing and evaluation of evidence. A compilation engagement is the least rigorous type, where the accountant compiles financial statements based on information provided by management without expressing an opinion or assurance on them, but it still falls under the definition of assurance engagements. In contrast, an evaluation engagement is not formally defined as a type of assurance engagement within the auditing standards. While it may involve assessing certain criteria or aspects of a subject matter, it does not fit within the established framework of assurance engagements like reviews, audits, or compilations, which directly contribute to the assurance process. Thus, it is why this choice is identified as not being a type of assurance engagement.

**4. What is one of the limitations of reasonable assurance in auditing?**

- A. It does not involve testing all transactions**
- B. It ensures a thorough examination of records**
- C. It guarantees absolute accuracy**
- D. It requires multiple auditors to perform the engagement**

One of the key limitations of reasonable assurance in auditing is that it does not involve testing all transactions. This is because auditing, by its nature, is a sampling process. Auditors typically examine a subset of transactions, which allows them to form an opinion on the financial statements without the need to review every single transaction. This sampling approach is based on the premise that the transactions tested are representative of the overall population. The limitation arises because the reliance on sampling means that there is always a possibility that some material misstatements could exist in the unexamined transactions. As a result, while reasonable assurance indicates a high level of confidence in the accuracy of the financial statements, it does not provide an absolute guarantee that all errors or fraud are detected. Understanding this limitation is crucial for stakeholders relying on audit reports, as it clarifies the level of assurance provided by auditors.

## 5. Which scenario represents a violation of the Implementing Rules and Regulations of RA 9298?

- A. Continuing a firm under a deceased partner's name for five years.
- B. Omitting a partner's name from the business name.
- C. Continuing a sole proprietorship after a partner's death.**
- D. Having ten other partners in the firm, all of them CPAs.

The scenario of continuing a sole proprietorship after a partner's death accurately reflects a violation of the Implementing Rules and Regulations of RA 9298. This is because a sole proprietorship is, by definition, owned and run by one individual. If that individual passes away, the entity cannot simply continue to exist as a sole proprietorship; it must either be formally transferred to a new owner or dissolved. In the context of the Implementing Rules and Regulations of RA 9298, which governs the practice of accountancy in the Philippines, regulations regarding the continuity of partnerships and sole proprietorships are strictly enforced, mandating appropriate actions following significant changes such as the death of a partner or sole proprietor. Continuing to operate a sole proprietorship without addressing the death of its owner would bypass these regulatory requirements, constituting a violation of the law. This scenario emphasizes the importance of adhering to legal obligations regarding the structure of accounting firms and the necessary actions that must be taken in the event of changes in ownership or partnership.

## 6. What type of assurance engagement involves the practitioner expressing a positive form of conclusion?

- A. Limited assurance engagement
- B. Negative assurance engagement
- C. Reasonable assurance engagement**
- D. Verification assurance engagement

The correct answer is reasonable assurance engagement. In this type of assurance engagement, the practitioner is required to provide a high level of assurance regarding the subject matter, and this is typically conveyed through a positive form of conclusion. This means that the practitioner expresses a conclusion that provides assurance that the information is free from material misstatement, according to the relevant criteria. Reasonable assurance engagements often involve detailed procedures, assessments, and evaluations, allowing the practitioner to gather enough sufficient appropriate evidence to support their conclusion. The result is a thorough and reliable opinion that enhances the credibility of the subject matter being examined. In contrast, limited assurance engagements provide a lower level of assurance and involve less extensive procedures. Negative assurance engagements do not provide an opinion but rather state that nothing has come to the practitioner's attention that indicates a material misstatement. Verification assurance engagement is not a recognized term in auditing standards and does not correspond to a specific type of engagement recognized in the field.

**7. How frequently can media-covered events be held to celebrate a professional accountant's anniversaries without violating advertising rules?**

- A. Every 3 years**
- B. Every 5 years**
- C. Every 10 years**
- D. Every 2 years**

In the context of professional accounting and the regulations surrounding advertising, celebrating a professional accountant's anniversaries through media-covered events can have specific limitations. The correct answer indicates that such events can be held every five years without violating advertising rules. This timeframe aligns with the professional standards and guidelines established by accounting bodies that aim to maintain the integrity and professionalism of the accounting profession. Celebrating anniversaries too frequently could be perceived as excessive self-promotion, which may compromise the reputation and ethical guidelines governing practicing accountants. By adhering to a five-year interval, accountants can celebrate milestones in a way that balances recognition with the profession's standards, thereby reinforcing their credibility while avoiding undue advertising that could be seen as unprofessional.

**8. What is one of the overall objectives of an auditor in conducting an audit of financial statements?**

- A. To obtain reasonable assurance that there are no misstatements**
- B. To perform a comprehensive review of accounts**
- C. To provide subjective evidence of the financial condition**
- D. To detect all misstatements due to fraud or error**

The overall objective of an auditor in conducting an audit of financial statements is to obtain reasonable assurance that the financial statements are free from material misstatements. This objective is central to the auditing process and aligns with the auditor's role in enhancing the credibility of financial reports for users, including investors and regulatory authorities. Reasonable assurance means that while the auditor cannot guarantee that all misstatements will be found, they will carry out their work to a standard where the risk of undetected misstatements is reduced to an acceptably low level. This involves assessing the risk of material misstatements in the financial statements and designing audit procedures to obtain sufficient appropriate audit evidence to form an opinion on the financial statements as a whole. This objective underscores the auditor's commitment to professionalism and due diligence, ensuring that stakeholders can trust the integrity of the financial information presented. It is a fundamental principle underpinning the entire audit process, reflecting the need for reliability and accountability in financial reporting.

**9. Which type of audit focuses on compliance with laws and regulations?**

- A. Financial audit.**
- B. Compliance audit.**
- C. Operational audit.**
- D. Internal audit.**

The focus of a compliance audit is specifically on determining whether an organization is adhering to relevant laws, regulations, policies, and procedures. This type of audit is designed to ensure that the entity is in compliance with external requirements, such as governmental regulations or industry standards. In a compliance audit, auditors examine various documents, records, and processes to verify that the organization has followed prescribed rules and regulations. This could involve everything from ensuring that financial practices comply with laws to verifying adherence to environmental regulations. The primary aim is to identify any areas of non-compliance and recommend improvements to avoid potential legal repercussions or penalties. In contrast, a financial audit concentrates on the accuracy and fairness of financial statements, while an operational audit evaluates the efficiency and effectiveness of operations within the organization. An internal audit can cover both compliance and operational aspects but isn't solely focused on compliance. Therefore, the compliance audit is distinct in its targeted approach to ensuring that laws and regulations are met.

**10. What potential independence threat is associated with litigation support services estimating outcomes affecting financial statement disclosures?**

- A. Self-interest threat**
- B. Intimidation threat**
- C. Self-review threat**
- D. Familiarity threat**

The correct answer relates to the self-review threat that arises when auditors provide litigation support services that influence the financial statements they are later tasked with auditing. When an auditor becomes involved in estimating outcomes that directly affect financial statement disclosures, they may find themselves evaluating or reviewing their own work. This situation can compromise their objectivity and independence because the auditor could unintentionally favor the conclusions drawn in their earlier assessments when executing the audit. Self-review threats occur when an auditor is in a position of having to review their previous conclusions or services as part of their current audit work. This conflict of interest can obscure impartial judgment, leading to biased auditing results. Therefore, it is critical for auditors to maintain a clear separation between services that could influence financial reporting and their audit activities to uphold the integrity and reliability of the audit process.

# 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](mailto:hello@examzify.com).**

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

**<https://auditingtheory.examzify.com>**

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

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