

ch2

Student: _____

1. Practice standards are a general set of standards intended to guide the audits of financial statements.
True False
2. The CICA Handbook recommendations are a step by step list of procedures auditors have to complete for each engagement.
True False
3. The general standard of GAAS relates primarily to the personal integrity and professional qualifications of auditors.
True False
4. Control risk is the risk that an accounting firm's quality control standards will not be adequate.
True False
5. The fourth reporting standard requires the audit report to comment on the consistency of the accounting principles used in preparing the financial statements.
True False
6. Auditors must still take responsibility for their opinion about conformity with GAAP when they give an adverse opinion.
True False
7. The concept of professional skepticism is based on the assumption that a potential conflict of interest always exists between the auditor and the management of the business under audit.
True False
8. An auditee's failure to give permission for the new auditor to contact the predecessor auditor may be a warning sign that the client has something to hide.
True False
9. Although weblogs are a rapidly growing area of the internet, the information is frequently biased, anecdotal, and speculative. Consequently, weblogs are too unreliable to be useful in identifying potential financial statement disclosure risks.
True False
10. The assessment of materiality has a pervasive impact on the audit.
True False

11. Assurance standards require a sufficient understanding of the internal control system be obtained to plan assurance work.
- True False
12. Practice inspection is something a new auditor does as part of their training program.
- True False
13. According to GAAS, the overall objective of a financial statement audit is:
- A To enable the auditor to express an opinion as to whether the financial statements are prepared in accordance with generally accepted accounting principles.
- B. To reduce audit risk to an acceptably low level.
- C. To determine whether the financial principles adopted by management in preparing the financial statements are acceptable.
- D To obtain reasonable assurance that the financial statements taken as a whole are free from misstatement, whether due to fraud or error.
14. Which of the following is the first task that the auditor must accomplish to demonstrate proficiency in auditing?
- A Identify the evidence relevant for the audit of assertions that are made by management in its unaudited financial statements and notes.
- B Design an audit program to obtain sufficient appropriate evidence about assertions management makes in financial statements and notes.
- C. Recognize the underlying assertions made by management in the financial statements and notes.
- D Evaluate the evidence gathered in the performance of the audit program and decide whether management's assertions conform to generally accepted accounting principles and reality.
15. Auditors try to achieve independence in appearance in order to
- A. Maintain public confidence in the profession.
- B. Become independent in appearance and in fact.
- C. Comply with the generally accepted auditing examination standards.
- D. Maintain an unbiased mental attitude.
16. Control risk is
- A The probability that a material misstatement could occur and not be prevented or detected by the company's internal control policies and procedures.
- B. The probability that a material misstatement could occur and not be detected by the auditor's audit procedures.
- C. The risk that the auditor will not be able to complete the audit on a timely basis.
- D. The risk that the auditor will not properly control the staff on the audit engagement.
17. The primary purpose of obtaining an understanding of the company's internal controls in the financial statement audit is:
- A. To help the auditors develop the audit program
- B. Make suggestions to management to improve internal controls.
- C. Obtain direct sufficient appropriate audit evidence to afford a reasonable basis for an opinion on the financial statements.
- D. To determine whether the company has changed any accounting principles.

18. An external auditor is conducting an audit of the financial statements of Camden Corporation. The external auditor is expected to
- A. Certify the correctness of Camden's financial statements.
 - B. Make a 100% examination of Camden's records.
 - C. Give an opinion on whether Camden's financial statements are fairly presented in all material respects.
 - D. Give an opinion on the attractiveness of Camden for investment purposes and critique the wisdom and . legality of its business decisions.
19. Which of the following statements best explains an unqualified report opinion?
- A. The financial statements contain a departure from GAAP.
 - B. The auditor was unable to complete the work necessary to form a complete opinion.
 - C. The auditor was not aware of any reasons not to believe the statements are correct.
 - D. Based on the evidence obtained the auditor believes the statements are free of material error.
20. A standard unqualified audit report should be dated:
- A. No later than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion.
 - B. No earlier than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion.
 - C. As at the end of the year being reported on.
 - D. As at the end of the year the audit work was done.
21. Several sources of GAAP consulted by an auditor are in conflict as to the application of an accounting principle. Which of the following should the auditor consider to be the most authoritative?
- A. CICA Handbook.
 - B. CICA Exposure Drafts.
 - C. Industry practice.
 - D. Federal legislation.
22. The reporting standards require that the auditor explicitly report on whether the financial statements:
- A. Contain adequate disclosure of all material matters.
 - B. Are in accordance with GAAP.
 - C. Used principles that are appropriate for the circumstances.
 - D. Were prepared on a consistent basis with the comparative year.
23. Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of
- A. Objective judgment.
 - B. Independent integrity.
 - C. Professional skepticism.
 - D. Impartial conservatism.
24. In planning an effective audit which of the following occurs first?
- A. Determine the acceptability of the financial reporting framework used.
 - B. Decide whether to accept or retain the client.
 - C. Understand the auditee's business.
 - D. Assess materiality.

25. For the audit of a for profit company, materiality should be set:
- A. To 5% of profit or 1% of sales
 - B. By the field auditor once they begin to gather evidence.
 - C. By the client's board of directors who represent the shareholders.
 - D. Based on both quantitative and qualitative criteria.
26. The mix between controls testing and substantive testing:
- A. Will affect the effectiveness of the audit.
 - B. Will affect the efficiency of the audit.
 - C. Will affect the results of the audit.
 - D. Will affect the profitability of the audit.
27. An assurance engagement is one in which a CA is engaged to
- A. Issue a written communication expressing a conclusion concerning a subject matter for which an accountable party is responsible.
 - B. Provide tax advice or prepare a tax return based on financial information the CA has not audited or reviewed.
 - C. Testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts.
 - D. Assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance.
28. CICA Handbook S. 5025 "Standards for Assurance Engagements" differs from S. 5100 "Generally Accepted Auditing Standards" in that the assurance standards
- A. Contain no requirement to obtain an understanding of the auditee's internal control system.
 - B. Do not require technical training and proficiency.
 - C. Do not require planning for attestation engagements or supervision of accountants and consultants who perform the work.
 - D. Do not require a report that "states the character of the engagement."
29. Which of the following statements is not a reporting standard for an assurance engagement?
- A. A conclusion whether the assertion is presented in conformity with established or stated criteria.
 - B. A statement of whether the practitioner has significant reservations about the engagement.
 - C. Identification of the assertion(s) being reported on.
 - D. An indication by the accountant of responsibility to update the report.
30. According to IFAC, which of the following is not one of the elements of quality control?
- A. Independence.
 - B. Supervision.
 - C. Acceptance and continuance of clients.
 - D. Due professional care.
31. In establishing a quality control system, which area should be of a secondary nature?
- A. Creating an independence and objectivity checklist.
 - B. Creating a program for continuing professional education.
 - C. Creating an internal review process.
 - D. Controlling access to client files.

32. Williams & Co., a large international CA firm, will be subject to an external peer review. The peer review will most likely be performed by
- A. Employees and partners of Williams & Co. who are not associated with the particular audits being reviewed.
 - B. Employees and partners of another CA firm.
 - C. Peer review staff of the Ontario Securities Commission.
 - D. Peer review staff of the CICA.
33. A report giving conclusions about a firm's compliance with quality control standards is typical of which of the following?
- A. Practice inspection.
 - B. Quality inspection.
 - C. Peer review.
 - D. Quality review.
34. Alan Fallon was recently promoted to senior accountant. He was put in charge of the Mellow Markets audit because of his experience with other grocery clients. Mellow Markets has a small, but growing chain of natural food stores. This is the first year Mellow Markets has been audited. Because of their growth Mellow needs additional capital. Mellow intends to take its audited financial statements to a bank to secure a loan. Alan has been assigned two inexperienced staff assistants for the audit. Because this is his first audit as a senior, he intends to bring the job in on budget. To save time, he gave the assistants the audit program for Happy Time Food Stores. He told his staff that this would make things go more quickly. He also told them that he could not spend much time with them at the client's place of business because "my time is billed out at such a high rate, we'll go right over budget." He did call them once a day from another audit on which he was working. The assistants told Alan that the audit program did not always match up with what they found at Mellow Markets. Alan responded, "Just cross out whatever is not relevant in the audit program and don't add anything—it will only make us go over the budget."
- When Alan came out near the end of fieldwork, one assistant communicated her concern that they had not attended the inventory counts at any of the out-of-town locations of Mellow Markets. The audit program had stipulated that inventory should be observed for in-town stores only. Happy Time had only one store not in town while Mellow Markets had three of their five stores in other cities. Alan told the assistant to get inventory sheets from the client for the other stores. He added, "Make sure that the inventory balance in the general ledger agrees with the total for all the inventory sheets." The next day, Alan reviewed all work papers and submitted the job for review by the manager.
- Required:
- A. Describe the GAAS examination standards.
 - B. Do you believe that the Mellow Markets audit is in compliance with these standards? Explain.

35. Outline the steps involved in planning an audit once the client has been accepted and an engagement letter has been signed.
36. Differentiate between assurance standards and generally accepted auditing standards.

ch2 Key

1. Practice standards are a general set of standards intended to guide the audits of financial statements.

TRUE

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.1
Page Reference: 30
Smieliauskas - Chapter 02 #1*

2. The CICA Handbook recommendations are a step by step list of procedures auditors have to complete for each engagement.

FALSE

*Blooms Taxonomy: Comprehension
Difficulty: 1
Learning Objective: 2.2
Page Reference: 31
Smieliauskas - Chapter 02 #2*

3. The general standard of GAAS relates primarily to the personal integrity and professional qualifications of auditors.

TRUE

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.2
Page Reference: 32
Smieliauskas - Chapter 02 #3*

4. Control risk is the risk that an accounting firm's quality control standards will not be adequate.

FALSE

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.2
Page Reference: 36
Smieliauskas - Chapter 02 #4*

5. The fourth reporting standard requires the audit report to comment on the consistency of the accounting principles used in preparing the financial statements.

FALSE

*Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.3
Page Reference: 39
Smieliauskas - Chapter 02 #5*

6. Auditors must still take responsibility for their opinion about conformity with GAAP when they give an adverse opinion.

TRUE

*Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.3
Page Reference: 40
Smieliauskas - Chapter 02 #6*

7. The concept of professional skepticism is based on the assumption that a potential conflict of interest always exists between the auditor and the management of the business under audit.

TRUE

*Blooms Taxonomy: Comprehension
Difficulty: 1
Learning Objective: 2.4
Page Reference: 40
Smieliauskas - Chapter 02 #7*

8. An auditee's failure to give permission for the new auditor to contact the predecessor auditor may be a warning sign that the client has something to hide.

TRUE

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.5
Page Reference: 43
Smieliauskas - Chapter 02 #8*

9. Although weblogs are a rapidly growing area of the internet, the information is frequently biased, anecdotal, and speculative. Consequently, weblogs are too unreliable to be useful in identifying potential financial statement disclosure risks.

FALSE

*Blooms Taxonomy: Comprehension
Difficulty: 2
Learning Objective: 2.5
Page Reference: 44
Smieliauskas - Chapter 02 #9*

10. The assessment of materiality has a pervasive impact on the audit.

TRUE

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.5
Page Reference: 45
Smieliauskas - Chapter 02 #10*

11. Assurance standards require a sufficient understanding of the internal control system be obtained to plan assurance work.

FALSE

*Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.6
Page Reference: 50
Smieliauskas - Chapter 02 #11*

12. Practice inspection is something a new auditor does as part of their training program.

FALSE

*Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.7
Page Reference: 56
Smieliauskas - Chapter 02 #12*

13. According to GAAS, the overall objective of a financial statement audit is:

- A**. To enable the auditor to express an opinion as to whether the financial statements are prepared in accordance with generally accepted accounting principles.
- B. To reduce audit risk to an acceptably low level.
- C. To determine whether the financial principles adopted by management in preparing the financial statements are acceptable.
- D. To obtain reasonable assurance that the financial statements taken as a whole are free from misstatement, whether due to fraud or error.

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.2
Page Reference: 30
Smieliauskas - Chapter 02 #13*

14. Which of the following is the first task that the auditor must accomplish to demonstrate proficiency in auditing?

- A. Identify the evidence relevant for the audit of assertions that are made by management in its unaudited financial statements and notes.
- B. Design an audit program to obtain sufficient appropriate evidence about assertions management makes in financial statements and notes.
- C**. Recognize the underlying assertions made by management in the financial statements and notes.
- D. Evaluate the evidence gathered in the performance of the audit program and decide whether management's assertions conform to generally accepted accounting principles and reality.

*Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.2
Page Reference: 32
Smieliauskas - Chapter 02 #14*

15. Auditors try to achieve independence in appearance in order to

- A**. Maintain public confidence in the profession.
- B. Become independent in appearance and in fact.
- C. Comply with the generally accepted auditing examination standards.
- D. Maintain an unbiased mental attitude.

*Blooms Taxonomy: Comprehension
Difficulty: 1
Learning Objective: 2.2
Page Reference: 32
Smieliauskas - Chapter 02 #15*

16. Control risk is

- A. The probability that a material misstatement could occur and not be prevented or detected by the company's internal control policies and procedures.
- B. The probability that a material misstatement could occur and not be detected by the auditor's audit procedures.
- C. The risk that the auditor will not be able to complete the audit on a timely basis.
- D. The risk that the auditor will not properly control the staff on the audit engagement.

Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.2
Page Reference: 36
Smieliauskas - Chapter 02 #16

17. The primary purpose of obtaining an understanding of the company's internal controls in the financial statement audit is:

- A. To help the auditors develop the audit program
- B. Make suggestions to management to improve internal controls.
- C. Obtain direct sufficient appropriate audit evidence to afford a reasonable basis for an opinion on the financial statements.
- D. To determine whether the company has changed any accounting principles.

Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.2
Page Reference: 36
Smieliauskas - Chapter 02 #17

18. An external auditor is conducting an audit of the financial statements of Camden Corporation. The external auditor is expected to

- A. Certify the correctness of Camden's financial statements.
- B. Make a 100% examination of Camden's records.
- C. Give an opinion on whether Camden's financial statements are fairly presented in all material respects.
- D. Give an opinion on the attractiveness of Camden for investment purposes and critique the wisdom and legality of its business decisions.

Blooms Taxonomy: Comprehension
Difficulty: 1
Learning Objective: 2.2
Page Reference: 36
Smieliauskas - Chapter 02 #18

19. Which of the following statements best explains an unqualified report opinion?

- A. The financial statements contain a departure from GAAP.
- B. The auditor was unable to complete the work necessary to form a complete opinion.
- C. The auditor was not aware of any reasons not to believe the statements are correct.
- D. Based on the evidence obtained the auditor believes the statements are free of material error.

Blooms Taxonomy: Comprehension
Difficulty: 1
Learning Objective: 2.3
Page Reference: 37
Smieliauskas - Chapter 02 #19

20. A standard unqualified audit report should be dated:
- A. No later than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion.
 - B. No earlier than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion.**
 - C. As at the end of the year being reported on.
 - D. As at the end of the year the audit work was done.

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.3
Page Reference: 37
Smieliauskas - Chapter 02 #20*

21. Several sources of GAAP consulted by an auditor are in conflict as to the application of an accounting principle. Which of the following should the auditor consider to be the most authoritative?
- A. CICA Handbook.**
 - B. CICA Exposure Drafts.
 - C. Industry practice.
 - D. Federal legislation.

*Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.3
Page Reference: 38
Smieliauskas - Chapter 02 #21*

22. The reporting standards require that the auditor explicitly report on whether the financial statements:
- A. Contain adequate disclosure of all material matters.
 - B. Are in accordance with GAAP.**
 - C. Used principles that are appropriate for the circumstances.
 - D. Were prepared on a consistent basis with the comparative year.

*Blooms Taxonomy: Comprehension
Difficulty: 2
Learning Objective: 2.3
Page Reference: 39
Smieliauskas - Chapter 02 #22*

23. Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of
- A. Objective judgment.
 - B. Independent integrity.
 - C. Professional skepticism.**
 - D. Impartial conservatism.

*Blooms Taxonomy: Comprehension
Difficulty: 2
Learning Objective: 2.4
Page Reference: 40
Smieliauskas - Chapter 02 #23
Source: CPA-Adapted: 5/94, #11*

24. In planning an effective audit which of the following occurs first?

- A. Determine the acceptability of the financial reporting framework used.
- B. Decide whether to accept or retain the client.
- C. Understand the auditee's business.
- D. Assess materiality.

Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.5
Page Reference: 42
Smieliauskas - Chapter 02 #24

25. For the audit of a for profit company, materiality should be set:

- A. To 5% of profit or 1% of sales
- B. By the field auditor once they begin to gather evidence.
- C. By the client's board of directors who represent the shareholders.
- D. Based on both quantitative and qualitative criteria.

Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.5
Page Reference: 45
Smieliauskas - Chapter 02 #25

26. The mix between controls testing and substantive testing:

- A. Will affect the effectiveness of the audit.
- B. Will affect the efficiency of the audit.
- C. Will affect the results of the audit.
- D. Will affect the profitability of the audit.

Blooms Taxonomy: Comprehension
Difficulty: 2
Learning Objective: 2.5
Page Reference: 47
Smieliauskas - Chapter 02 #26

27. An assurance engagement is one in which a CA is engaged to

- A. Issue a written communication expressing a conclusion concerning a subject matter for which an accountable party is responsible.
- B. Provide tax advice or prepare a tax return based on financial information the CA has not audited or reviewed.
- C. Testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts.
- D. Assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance.

Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.6
Page Reference: 48
Smieliauskas - Chapter 02 #27
Source: CPA-Adapted: 5/92, #60

28. CICA Handbook S. 5025 "Standards for Assurance Engagements" differs from S. 5100 "Generally Accepted Auditing Standards" in that the assurance standards
- A. Contain no requirement to obtain an understanding of the auditee's internal control system.
 - B. Do not require technical training and proficiency.
 - C. Do not require planning for attestation engagements or supervision of accountants and consultants who perform the work.
 - D. Do not require a report that "states the character of the engagement."

Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.6
Page Reference: 50
Smieliauskas - Chapter 02 #28

29. Which of the following statements is not a reporting standard for an assurance engagement?
- A. A conclusion whether the assertion is presented in conformity with established or stated criteria.
 - B. A statement of whether the practitioner has significant reservations about the engagement.
 - C. Identification of the assertion(s) being reported on.
 - D. An indication by the accountant of responsibility to update the report.

Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.6
Page Reference: 51
Smieliauskas - Chapter 02 #29

30. According to IFAC, which of the following is not one of the elements of quality control?
- A. Independence.
 - B. Supervision.
 - C. Acceptance and continuance of clients.
 - D. Due professional care.

Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.7
Page Reference: 53
Smieliauskas - Chapter 02 #30

31. In establishing a quality control system, which area should be of a secondary nature?
- A. Creating an independence and objectivity checklist.
 - B. Creating a program for continuing professional education.
 - C. Creating an internal review process.
 - D. Controlling access to client files.

Blooms Taxonomy: Comprehension
Difficulty: 3
Learning Objective: 2.7
Page Reference: 56
Smieliauskas - Chapter 02 #31

32. Williams & Co., a large international CA firm, will be subject to an external peer review. The peer review will most likely be performed by
- A. Employees and partners of Williams & Co. who are not associated with the particular audits being reviewed.
 - B. Employees and partners of another CA firm.**
 - C. Peer review staff of the Ontario Securities Commission.
 - D. Peer review staff of the CICA.

Blooms Taxonomy: Knowledge recall
Difficulty: 2
Learning Objective: 2.7
Page Reference: 56
Smieliauskas - Chapter 02 #32

33. A report giving conclusions about a firm's compliance with quality control standards is typical of which of the following?
- A. Practice inspection.
 - B. Quality inspection.
 - C. Peer review.**
 - D. Quality review.

Blooms Taxonomy: Knowledge recall
Difficulty: 1
Learning Objective: 2.7
Page Reference: 57
Smieliauskas - Chapter 02 #33

34. Alan Fallon was recently promoted to senior accountant. He was put in charge of the Mellow Markets audit because of his experience with other grocery clients. Mellow Markets has a small, but growing chain of natural food stores. This is the first year Mellow Markets has been audited. Because of their growth Mellow needs additional capital. Mellow intends to take its audited financial statements to a bank to secure a loan.
- Alan has been assigned two inexperienced staff assistants for the audit. Because this is his first audit as a senior, he intends to bring the job in on budget. To save time, he gave the assistants the audit program for Happy Time Food Stores. He told his staff that this would make things go more quickly. He also told them that he could not spend much time with them at the client's place of business because "my time is billed out at such a high rate, we'll go right over budget." He did call them once a day from another audit on which he was working. The assistants told Alan that the audit program did not always match up with what they found at Mellow Markets. Alan responded, "Just cross out whatever is not relevant in the audit program and don't add anything—it will only make us go over the budget."
- When Alan came out near the end of fieldwork, one assistant communicated her concern that they had not attended the inventory counts at any of the out-of-town locations of Mellow Markets. The audit program had stipulated that inventory should be observed for in-town stores only. Happy Time had only one store not in town while Mellow Markets had three of their five stores in other cities. Alan told the assistant to get inventory sheets from the client for the other stores. He added, "Make sure that the inventory balance in the general ledger agrees with the total for all the inventory sheets." The next day, Alan reviewed all work papers and submitted the job for review by the manager.

Required:

A. Describe the GAAS examination standards.

B. Do you believe that the Mellow Markets audit is in compliance with these standards? Explain.

A. The examination standards are outlined below.

1. The work should be adequately planned and properly executed using sufficient knowledge of the entity's business as a basis. If assistants are employed they should be properly supervised
2. A sufficient understanding of internal control should be obtained to plan the audit. When control risk is assessed below maximum, sufficient appropriate audit evidence should be obtained through tests of controls to support the assessment.
3. Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, enquiry, confirmation, computation, and analysis, to afford a reasonable basis to support the content of the report.

B. 1. The Mellow Markets audit is not in compliance with these standards. A proper audit program was not prepared. This, along with the emphasis on cutting time, means that it is also doubtful that a meaningful knowledge of the client's business was obtained. It appears that the planning portion of the first examination standard was clearly violated. The lack of time and attention the inexperienced staff received from Alan Fallon is indicative of a violation of the supervision part of the first examination standard.

2. There is no indication of any steps taken to understand, evaluate, or test the internal control of Mellow Markets. This is a violation of the second examination standard.

3. The third examination standard also seems to have been violated. First, the deficiencies in meeting the first two examination standards suggest that the auditors could not have obtained sufficient appropriate evidence. In addition, the failure to observe any of the inventory counts in other cities is an additional deficiency - particularly since Mellow is a new client. Finally, ensuring that the inventory sheets agree with the balance in the general ledger account is merely a first step in the audit of inventory. By itself it is not sufficient appropriate evidence.

Blooms Taxonomy: Analysis
Difficulty: 3
Learning Objective: 2.2
Page Reference: 31
Smieliauskas - Chapter 02 #34

35. Outline the steps involved in planning an audit once the client has been accepted and an engagement letter has been signed.

The steps involved are to calculate materiality, determine the acceptable level of audit risk, make a preliminary assessment of inherent and control risk, and decide on an approach to gathering evidence.

Blooms Taxonomy: Comprehension
Difficulty: 2
Learning Objective: 2.5
Page Reference: 46
Smieliauskas - Chapter 02 #35

36. Differentiate between assurance standards and generally accepted auditing standards.

Assurance standards are a general set of statements intended to guide assurance work in areas other than audit of financial statements. According to the CICA Handbook, the standards for an assurance engagement (S. 5025) apply only where other standards do not exist. Generally accepted auditing standards (GAAS) relate to the audit of historical financial statements and are outlined in CAS 200.

Blooms Taxonomy: Comprehension
Difficulty: 3
Learning Objective: 2.6
Page Reference: 52
Smieliauskas - Chapter 02 #36

ch2 Summary

<u>Category</u>	<u># of Questions</u>
Blooms Taxonomy: Analysis	1
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Difficulty: 1	18
Difficulty: 2	15
Difficulty: 3	3
Learning Objective: 2.1	1
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Learning Objective: 2.3	6
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Source: CPA-Adapted: 5/92, #60	1
Source: CPA-Adapted: 5/94, #11	1