

Chapter 02 Professional Standards

Multiple Choice Questions

1. The attestation standards of reporting do not require a statement that
- A. Provides a conclusion whether the subject matter is presented in conformity with established or stated criteria
 - B. The practitioner has significant reservations about the engagement
 - C. Identifies the subject matter or assertion being reported on
 - D.** The accountant assumes no responsibility to update the report

Difficulty: Easy
Source: Original

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

Difficulty: Medium
Source: Original

3. Auditing is based on the assumption that financial data and statements are
- A. In conformity with GAAP
 - B.** Verifiable
 - C. Presented fairly
 - D. Consistently applied

Difficulty: Hard
Source: Original

4. The general standards under generally accepted auditing standards do *not* include which of the following?

- A. Training and proficiency
- B. Independent attitude
- C. Due professional care
- D.** Planning and supervision

Difficulty: Easy
Source: Original

5. Which of the following types of auditors' reports does not require an explanation to support the opinion?

- A.** Unqualified opinion
- B. Adverse opinion
- C. Qualified opinion
- D. Disclaimer of opinion

Difficulty: Easy
Source: Original

6. Which of the following is an element of an accounting firm's quality control system that should be considered in establishing its quality control policies and procedures?

- A. Lending credibility to a client's financial statements
- B. Using statistical sampling techniques
- C.** Acceptance and continuance of clients
- D. Membership in the Center for Public Company Audit Firms (CPCAF)

Difficulty: Medium
Source: Original

7. Which of the following presumptions does *not* relate to the reliability of audit evidence?
- A. The more effective the client's internal control, the more assurance it provides about the accounting data and financial statements
 - B.** The auditors' opinion, to be economically useful, is formed within reasonable time and based on evidence obtained at a reasonable cost
 - C. Evidence obtained from independent sources outside the entity is more reliable than evidence secured solely within the entity
 - D. The independent auditors' direct personal knowledge, obtained through observation and inspection, is more persuasive than information obtained indirectly

Difficulty: Hard
Source: AICPA

8. According to the fourth standard of reporting of generally accepted auditing standards, when an overall opinion cannot be given, auditors must
- A. Withdraw from the engagement
 - B.** State the reason
 - C. Issue an adverse opinion
 - D. Qualify the report

Difficulty: Easy
Source: Original

9. The role of the Public Company Accounting Oversight Board (PCAOB) is to oversee the
- A. Issuance of statements by the Financial Accounting Standards Board
 - B. Preparation and grading of the Uniform CPA Examination
 - C. Peer review of member firms of the Private Companies Practice Section
 - D.** Regulation of firms that audit entities registered with the SEC

Difficulty: Easy
Source: Original

10. Audit evidence is usually considered sufficient when
- A. It is reliable
 - B. There is enough quantity to afford a reasonable basis for an opinion on financial statements**
 - C. It has the qualities of being relevant, objective, and free from unknown bias
 - D. It has been obtained through random selection methods

Difficulty: Medium
Source: AICPA

11. Which of the following is *not* considered a type of evidence?
- A. Scanning**
 - B. Auditors' calculations
 - C. Physical observation
 - D. Statements made by client personnel

Difficulty: Medium
Source: Original

12. The AICPA attestation standards differ from the AICPA generally accepted auditing standards in that:
- A. The attestation standards contain no requirement to obtain an understanding of the client and assess the risk of material misstatement**
 - B. The attestation standards do not require technical training and proficiency
 - C. The attestation standards do not require planning for attestation engagements or supervision of accountants and consultants who perform the work
 - D. The attestation standards do not require a report that "states the character of the engagement."

Difficulty: Medium
Source: Original

13. An audit of the financial statements of Camden Corporation is being conducted by external auditors. The external auditors are 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 the fair presentation of Camden's financial statements in conformity with generally accepted accounting principles
 - D. Give an opinion on the attractiveness of Camden for investment purposes and critique the wisdom and legality of its business decisions

Difficulty: Easy
Source: Original

14. Auditors try to achieve independence in appearance in order to:
- A. Maintain public confidence in the profession
 - B. Become independent in fact
 - C. Comply with the standards of field Work under generally accepted auditing standards
 - D. Maintain an unbiased mental attitude

Difficulty: Medium
Source: Original

15. Independent auditors most likely will refer to one or more of the three general standards of generally accepted auditing standards to determine
- A. The nature of an report qualification
 - B. The nature, timing, and extent of audit procedures
 - C. Requirements for a sufficient understanding of the risk of material misstatement
 - D. Whether auditors should undertake an audit examination for a particular entity

Difficulty: Medium
Source: Original

16. The independent auditors' program prepared prior to the start of field Work is appropriately considered documentation of

- A. Planning
- B. Supervision
- C. Information evaluation
- D. Quality assurance

Difficulty: Easy
Source: Original

17. The fourth standard of reporting requires the auditors' report to express an opinion regarding the financial statements taken as a whole or state that an opinion cannot be expressed. The objective of the fourth standard is to prevent

- A. Auditors from reporting on one basic financial statement and not the others
- B. Misinterpretations regarding the degree of responsibility auditors are assuming
- C. Auditors from expressing different opinions on each of the basic financial statements
- D. Management from reducing its final responsibility for the basic financial statements

Difficulty: Easy
Source: Original

18. Which of the following procedures would provide the most reliable audit evidence?

- A. Inquiries of the client's internal audit staff held in private
- B. Inspection of prenumbered client purchase orders filed in the vouchers payable department
- C. Analytical procedures performed by auditors on the client's trial balance
- D. Inspection of bank statements obtained directly from the client's financial institution

Difficulty: Medium
Source: AICPA

19. Which of the following is a conceptual difference between the attestation standards and generally accepted auditing standards?

- A. The attestation standards provide a framework for the attest function beyond historical financial statements
- B. The requirement that the practitioner be independent in mental attitude is omitted from the attestation standards
- C. The attestation standards do not permit an attestation engagement to be part of a business acquisition study or a feasibility study
- D. None of the standards of field Work in generally accepted auditing standards is included in the attestation standards

Difficulty: Medium
Source: AICPA

20. Which of the following is not an attestation standard?

- A. The practitioner must obtain sufficient evidence to provide a reasonable basis for the conclusion expressed in the report
- B. The practitioner must identify the subject matter or the assertion being reported on and state the character of the engagement
- C. The practitioner must adequately plan the work and must properly supervise any assistants
- D. A sufficient understanding of the client's internal controls shall be obtained to plan the engagement

Difficulty: Easy
Source: AICPA

21. Which of the following would most likely be a violation of the independence standard under generally accepted auditing standards?

- A. An auditor on the engagement has a distant relative who is employed by a vendor that does a significant amount of business with clients
- B. The client's Chief Executive Officer graduated from the same university as the partner in charge of the accounting firm
- C. An auditor on the engagement owns a small financial interest in the stock of the client
- D. The client provides financial support to a number of charitable causes that also receive support from the accounting firm

Difficulty: Medium
Source: Original

22. A vendor's invoice received and held by the client would be considered what type of evidence?

- A. External
- B. Internal
- C. External-internal
- D. Written representation

Difficulty: Easy
Source: Original

23. Which of the following statements is generally correct about the appropriateness of audit evidence?

- A. Auditors' direct personal knowledge, obtained through observation and inspection, is more persuasive than information obtained indirectly from independent outside sources
- B. To be reliable, audit evidence must be either valid or relevant, but need not be both
- C. Client accounting data alone may be considered sufficient appropriate audit evidence to issue an unqualified opinion on client financial statements
- D. Appropriateness of audit evidence refers to the amount of corroborative evidence to be obtained

Difficulty: Medium
Source: AICPA

24. The standard auditors' report refers to GAAS and GAAP in which paragraph?

- A. GAAS: Scope only; GAAP: Opinion only
- B. GAAS: Introductory only; GAAP: Scope and opinion
- C. GAAS: Introductory and scope; GAAP: Opinion only
- D. GAAS: Introductory only; GAAP: All paragraphs

Difficulty: Medium
Source: AICPA

25. Several sources of GAAP consulted by auditors are in conflict as to the application of an accounting principle. Which of the following should auditors consider the most authoritative?

- A. FASB Technical Bulletins
- B. AICPA Accounting Interpretations
- C. FASB Statements of Financial Accounting Concepts
- D. AICPA Technical Practice Aids

Difficulty: Hard
Source: AICPA

26. Which of the following is not included in the auditors' standard report representing an unqualified opinion?

- A. A brief indication of the responsibility of auditors and management for the financial statements
- B. An indication that all appropriate disclosures have been made and included in the financial statements
- C. An indication that the audit was conducted in accordance with standards established by the PCAOB
- D. The auditors' opinion on the fairness of the financial statements

Difficulty: Easy
Source: Original

27. Internal evidence

- A. Is obtained directly from third parties independent of the client
- B. Originates outside of the client's system but has been received and processed by the client
- C. Consists of documents that are produced, used, and stored within the client's information system
- D. Consists of representations made by the client's officers, directors, owners, and employees

Difficulty: Easy
Source: Original

28. Which of the following presumptions is correct about the reliability of audit evidence?
- A. Information obtained indirectly from outside sources is the most reliable form of audit evidence
 - B. To be reliable, audit evidence should be convincing rather than persuasive
 - C. Reliability of audit evidence refers to the amount of corroborative evidence obtained
 - D.** An effective system of internal control provides more assurance about the reliability of audit evidence

Difficulty: Hard
Source: AICPA

29. When auditors do not mention consistency in the auditors' report, a reader of the financial statements may infer
- A.** That GAAP have been consistently observed in the current period in relation to the preceding period
 - B. That no material departure from GAAP has been detected
 - C. That no reclassification of items or change in classifications has occurred
 - D. Nothing about application of accounting principles within the period

Difficulty: Hard
Source: AICPA

30. The auditors' responsibility to express an opinion on the financial statements is
- A. Implicitly represented in the auditors' standard report
 - B.** Explicitly represented in the introductory paragraph of the auditors' standard report
 - C. Explicitly represented in the scope paragraph of the auditors' standard report
 - D. Explicitly represented in the opinion paragraph of the auditors' standard report

Difficulty: Medium
Source: AICPA

31. Which of the following is one of the four standards of reporting included in generally accepted auditing standards?

A. The auditor must exercise due professional care in the performance of the audit and the preparation of the report

B. The report must state whether the financial statements are presented in accordance with GAAP

C. Sufficient appropriate audit evidence should be obtained

D. The report must state that generally accepted auditing standards have been followed in the conduct of the audit

Difficulty: Medium

Source: AICPA

32. Under generally accepted auditing standards, which of the following reflects a concept from one of the general standards?

A. The initial planning of the audit engagement with the audit partner, manager senior, and client personnel

B. The confirmation of accounts receivable

C. The completion of an internal control questionnaire

D. The assignment of audit personnel to engagements in which they have no direct or material indirect financial interest

Difficulty: Medium

Source: AICPA

33. Which of the following represent audit quality guides that remain stable over time and for all audits?

A. Auditing procedures

B. Auditing standards

C. Due professional care

D. Quality control standards

Difficulty: Easy

Source: Original

34. Which of the following situations would most likely result in a violation of the general standards?

- A. Auditors perform the engagement with the care of prudent auditors, but not expert auditors
- B. Auditors obtain expertise in their client's industry as they are conducting the audit examination
- C. Auditors are involved with a client in a decision-making capacity**
- D. Auditors fail to document their assessment of control risk following their study of internal control

Difficulty: Medium
Source: Original

35. Which of the following statements is *not* true with respect to the evidence that would be gathered when assessments of control risk are high?

- A. Auditors would be required to rely on external (rather than internal) forms of evidence
- B. Auditors would be required to perform procedures at interim periods, rather than at year end**
- C. Auditors would be required to confirm a larger number of customer accounts receivable balances
- D. Auditors would be required to obtain more evidence through direct personal observation

Difficulty: Hard
Source: Original

36. As it relates to audit evidence, appropriateness refers to the

- A. Originality of evidence gathered
- B. Quality of evidence gathered**
- C. Quantity of evidence gathered
- D. Timeliness of evidence gathered

Difficulty: Easy
Source: Original

37. Which of the following information would not be included in the auditors' standard report?

- A. The names of the financial statements audited
- B. A description of the nature of an audit
- C. An indication that all necessary disclosures have been presented**
- D. An opinion on the entity's financial statements

Difficulty: Easy
Source: Original

38. The primary purpose of the auditors' study of internal control for a nonpublic entity is to

- A. To provide constructive suggestions to the client for improving its internal control
- B. To report on internal control as required by *Auditing Standard No. 5*
- C. To identify and detect fraud and irregularities perpetrated by client personnel
- D. To determine the nature, timing, and extent of substantive procedures**

Difficulty: Easy
Source: Original

39. Which reporting options do auditors have if the client's financial statements are not presented according to GAAP?

- A. Unqualified or disclaimer of opinion
- B. Qualified or disclaimer of opinion
- C. Unqualified or adverse
- D. Qualified or adverse**

Difficulty: Easy
Source: Original

40. Which of the following is most closely related to quality control standards regarding engagement performance?

- A. Requiring all of the firm's personnel to provide a summary of their investments and other financial relationships
- B. Evaluating the firm's quality control standards on a periodic basis
- C. Utilizing standardized audit programs and audit documentation on engagements in a particular industry
- D. Evaluating the firm's ability to provide a quality audit to a prospective client

Difficulty: Medium

Source: Original

Essay Questions

41. For each of the matters below, indicate through the appropriate letter the group of generally accepted auditing standards to which the matter is most closely related.

- A. General standards
- B. Standards of field work
- C. Standards of reporting

The mental attitude and impartiality of auditors.

Auditors' overall conclusion of the fairness of the client's financial statements.

The use of an audit program to identify audit procedures to be performed during the engagement.

Auditors' assessment of control risk after performing tests of controls.

Accounting firm policies with respect to the level of expected continuing professional education.

Client's disclosure of all pending litigation against the client at year end.

The hierarchical review process used to evaluate the appropriateness of audit documentation prepared by assistants.

Auditors' requests to obtain bank statements directly from institutions with whom the client does business.

The client's use of accounting principles that are consistent with those used in prior years.

Actions taken by auditors to communicate their level of involvement with and responsibility assumed for the client's financial statements.

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

Difficulty: Easy

Source: Original

42. Distinguish between attestation standards and generally accepted auditing standards by identifying and describing major differences between the two sets of standards.

1. Attestation standards do not attempt to describe one type of engagement (such as a GAAS audit) or identify one type of information on which assurance is provided (such as the financial statements).
2. In addition to general training and knowledge in the attest (audit) function, attestation standards require that practitioners have adequate knowledge of the subject matter to which the attestation engagement relates. (Because of the wide range of attestation engagements, this is a requirement that is necessary for attestation engagements but not audit engagements).
3. Practitioners can only accept attestation engagements if the subject matter is capable of being assessed against established criteria (since financial statements can always be assessed against GAAP, there is no requirement such as this in GAAS).
4. Attestation standards do not require auditors to obtain an understanding of the client to assess the risk of material misstatement.
5. Attestation standards do not address the consistent application of accounting principles, as this is not applicable in attestation engagements other than audits of financial statements.
6. Since attestation engagements may not depend upon one type of criteria (such as GAAP in an audit), information is evaluated based on "established or stated criteria".
7. Since attestation engagements may be conducted on a wide range of information, the use of the attestation report may be limited to specified individuals (the use of auditors' reports is generally available to any interested party).

Difficulty: Medium

Source: Original

43. 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 Markets needs additional capital and intend to use their audited financial statements to secure a loan.

Alan has been assigned two inexperienced staff assistants for the audit. Because this is his first engagement as a senior, he intends to bring the job in on budget. To save time, he provided his assistants with a copy of the audit program for Happy Time Food Stores. He told them 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." However, he did call them once a day from another audit on which he was working.

After beginning their work, 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 to the client near the end of field Work, one assistant was concerned that no inventory observation was done at 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 out-of-town location, while three of Mellow Markets' five stores were in other cities. Alan told the assistant to get inventory sheets from the client for the other stores and 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 audit documentation and submitted the job for review by the manager.

Required:

- a. Describe the GAAS standards of field Work
- b. Do you believe that the Mellow Markets audit complies with these standards? Explain.

The three standards of field Work are:

1. The auditor must adequately plan the work and must properly supervise any assistants.
2. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.
3. The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.

The Mellow Markets audit does not comply with these standards. With respect to planning, the failure to prepare an appropriate audit program and lack of time and attention the inexperienced staff received from Alan violate the first standard of field Work. With respect to the second standard of field Work, there is no indication that any steps were taken to either understand the client's business or its internal control. Finally, with respect to the third standard of field Work, deficiencies related to the first two standards of field Work suggest that the appropriate procedures were not performed to collect sufficient appropriate evidence. Further, the lack of a relevant plan to observe inventory in other cities and Alan's decision to limit inventory procedures to agreeing the inventory sheets and the general ledger inventory balance demonstrates the failure to gather sufficient appropriate evidence and represents a violation of the third standard of field Work.

Difficulty: Hard
Source: Original