Chapter 02

Professional Standards

True / False Questions

1. Auditors may be independent in fact but not independent in appearance.

   True False

2. *Auditing Standards* issued by the PCAOB are the sole source of guidance for audits of public entities.

   True False

3. Attestation standards provide guidance for a wide variety of engagements different in scope than an audit.

   True False

4. Generally accepted auditing standards must be followed on all audit engagements.

   True False

5. The reporting principle relates to a firm's system of quality control criteria for conducting an audit.

   True False

6. Auditors cannot effectively satisfy the responsibilities principle requiring due care if they have not also satisfied the performance principle.

   True False

7. Substantive procedures performed by the audit team are most closely related to the risk of material misstatement.

   True   False

8. Auditing procedures are the same as auditing standards.

   True   False

9. The concept of due care reflects the need to plan and perform the audit with an appropriate level of professional skepticism.

   True   False

10. Under the performance principle, auditors are required to provide absolute assurance that the client's financial statements do not contain material misstatements.

    True   False

11. The performance principle sets forth the quality criteria for conducting an audit.

    True   False

12. Auditors of public entities registered with the Securities and Exchange Commission are required to register with the Public Company Accounting Oversight Board.

    True   False

13. Control risk is the probability that a material misstatement (error or fraud) could occur and not be prevented or detected on a timely basis by the auditors' substantive procedures.

    True   False

14. The word *appropriateness* refers to the number of transactions or components of an account balance examined by auditors.

    True   False

15. To be considered material, an item must be one that would influence the decision of financial statement users.

    True False

16. The contents of the auditors' report are guided by the performance principle of GAAS.

    True False

17. An unqualified opinion indicates that the financial statements present the entity's financial condition, results of operations, and cash flows in conformity with GAAP.

    True False

18. The auditors' report should either contain an expression of opinion on the financial statements taken as a whole or an assertion to the effect that an opinion cannot be expressed.

    True False

19. Evidence is considered appropriate when it is both valid and relevant.

    True False

20. The purpose of a system of quality control is to provide reasonable assurance that the firm and its personnel issue reports that are appropriate under the circumstances.

    True False

Multiple Choice Questions

21. (Appendix) The attestation standards do *not* require the attestation report to include a statement that

    A. Provides a conclusion whether the subject matter is presented in conformity with established or stated criteria.
    B. Indicates that the practitioner has significant reservations about the engagement.
    C. Identifies the subject matter or assertion being reported on.
    D. Indicates that the accountant assumes no responsibility to update the report.

22. 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.

23. The responsibilities principle under generally accepted auditing standards does *not* include which of the following?

    A. Competence and capabilities.
    B. Independent attitude.
    C. Due care.
    D. Planning and supervision.

24. Which of the following types of auditors' reports does not require an explanatory paragraph to support the opinion?

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

25. Which of the following is an element of a system of quality control that should be considered by a public accounting firm in establishing its quality control policies and procedures?

A. Lending credibility to a client's financial statements.
B. Using statistical sampling techniques.
C. Accepting and continuing client relationships and specific engagements.
D. Obtaining membership in the Center for Public Company Audit Firms.

26. 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 a 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.

27. An important role of the Public Company Accounting Oversight Board 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 public entities.

28. 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.

29. Which of the following is *not* considered a type of audit evidence?

A. Entity's trial balance.
B. Auditors' calculations.
C. Physical observation.
D. Verbal statements made by client personnel.

30. (Appendix) The AICPA attestation standards differ from the responsibilities principle, performance principle, and reporting principle in that:

A. The attestation standards contain no requirement to obtain an understanding of the entity and assess the risk of material misstatement.
B. The attestation standards do not require competence and capabilities.
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.

31. 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 complete examination of Camden's records and verify all of Camden's transactions.
C. Give an opinion on the fair presentation of Camden's financial statements in conformity with the applicable financial reporting framework (e.g., GAAP, IFRS).
D. Give an opinion on the attractiveness of Camden for investment purposes and critique the wisdom and legality of its business decisions.

32. 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 responsibilities principle.
D. Maintain an unbiased mental attitude.

33. The preparation of an audit plan prior to the beginning of fieldwork is appropriately considered documentation of

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

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

A. Inquiries of the client's accounting staff held in private.
B. Inspection of prenumbered client shipping documents.
C. Inspection of bank statements obtained directly from the client's financial institution.
D. Analytical procedures performed by auditors on the client's trial balance.

35. (Appendix) 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.

36. Which of the following would most likely be a violation of the independence requirement found in the responsibilities principle 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 financial interest in the client's stock.
D. The client provides financial support to a number of charitable causes that also receive support from the accounting firm.

37. 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.

38. 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.

39. The standard auditors' report refers to standards of the PCAOB and GAAP in which paragraph?

A. Standards of the PCAOB: Scope only; GAAP: Opinion only
B. Standards of the PCAOB: Introductory only; GAAP: Scope and opinion
C. Standards of the PCAOB: Introductory and scope; GAAP: Opinion only
D. Standards of the PCAOB: Introductory only; GAAP: All paragraphs

40. 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.

41. Internal evidence

A. Is obtained directly from third parties independent of the client.
B. Originates outside 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.

42. 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.

43. 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.

44. Which of the following is *not* a concept from the performance principle under generally accepted auditing standards?

A. The auditor must plan the work and properly supervise any assistants.
B. The auditor must express an opinion in accordance with the auditor's findings.
C. The auditor must obtain sufficient appropriate evidence about whether material misstatements exist.
D. The auditor must determine and apply an appropriate materiality level throughout the audit.

45. Under generally accepted auditing standards, which of the following relates to the responsibilities principle?

A. The initial planning of the audit engagement.
B. The confirmation of accounts receivable.
C. The completion of an internal control questionnaire.
D. Maintaining professional skepticism and exercising professional judgment.

46. Which of the following represent(s) audit quality guides that remain stable over time and are applicable for all audits?

A. Auditing procedures.
B. Auditing standards.
C. Due care.
D. System of quality control.

47. Which of the following situations would most likely be in conflict with the responsibilities principle?

A. Auditors perform the engagement with the performance level expected 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 directly involved with a client manager in a strategic decision-making capacity.
D. Auditors fail to document their assessment of control risk following their study of internal control.

48. 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.

49. 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.

50. 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.

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

    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.

52. Which reporting options do auditors have if the client's financial statements are *not* presented according to the applicable financial framework (e.g., GAAP, IFRS)?

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

53. Which of the following statements is true with respect to the persuasiveness of audit evidence?

A. Persuasiveness is related to the relevance of evidence but not the reliability of evidence.
B. Evidence is considered more persuasive when gathered prior to year-end than following year-end.
C. Evidence obtained under environments of stronger internal control is more persuasive than evidence obtained under environments of weaker internal control.
D. In evaluating persuasiveness, sufficiency of evidence is of more importance than appropriateness of evidence.

54. Which of the following concepts is least related to the risk of material misstatement?

A. Control risk.
B. Detection risk.
C. Inherent risk.
D. Materiality.

55. Which of the following statements describes an appropriate relationship with respect to the reliability of audit evidence?

A. Receiving confirmation from third parties as to the existence of securities is more reliable than the auditors' personal inspection of those securities.
B. Verbal inquiries received from the client regarding sales made to customers are more reliable than sales invoices prepared by the client for its customers.
C. A bank confirmation received directly by the auditor is more reliable than a bank confirmation initially received by the client and forwarded to the auditor.
D. Evidence drawn from a document prepared by the client is more reliable than evidence drawn from a document prepared by an external party that is forwarded to the auditor by the client.

56. A periodic review of an audit firm's system of quality control by the PCAOB is referred to as a(n):

A. Inspection.
B. Peer review.
C. Principles review.
D. Quality review.

57. The performance principle would include all of the following *except*

A. The auditors' determination of materiality levels.
B. The auditors' evaluation of independence with respect to their clients.
C. The auditors' evaluation of the risk of material misstatement.
D. The auditors' determination of the nature, timing, and extent of substantive tests.

58. Which of the following is most closely associated with the responsibilities principle?

A. Due care.
B. Planning.
C. Qualified audit opinion.
D. Risk of material misstatement.

59. Which of the following statements is *not* true with respect to the responsibility for establishing generally accepted auditing standards?

A. The PCAOB issues auditing standards for the audit of public entities subject to SEC approval.
B. Standards issued by the Auditing Standards Board after 2003 apply to the audits of both public and private entities.
C. If not superseded by the PCAOB, Statements on Auditing Standards issued prior to 2003 are applicable to the audit of public entities.
D. Prior to the Sarbanes-Oxley Act, the Auditing Standards Board issued auditing standards for the audits of both public and private entities.

60. Which of the following would normally be considered earliest in the audit examination?

    A. Determination of materiality levels to use during the audit.
    B. Consideration of the ability of the entity's internal control to prevent or detect errors.
    C. Preparation of a written audit plan.
    D. Evaluation of the type of audit opinion to be issued based on the auditor's findings.

61. The state of mind that characterizes the auditors' appropriate questioning and critical assessment of audit evidence is referred to as:

    A. Due care.
    B. Independence in appearance.
    C. Professional judgment.
    D. Professional skepticism.

62. Which of the following is *least* related to the concept of independence in appearance?

    A. The auditors' objectivity and ability to act impartially toward the client.
    B. The perceptions of individuals who rely on the financial statements and auditors' opinion on the financial statements.
    C. The ownership of a financial interest in a client by the auditor.
    D. The employment of the auditor's family member in an important position with the client.

63. Which concept recognizes that a GAAS audit may fail to detect all material misstatements?

    A. Absolute assurance.
    B. Due care.
    C. Reasonable assurance.
    D. Risk of material misstatement.

64. Which of the following categories of principles is most closely related to gathering audit evidence?

    A. Performance.
    B. Reasonable assurance.
    C. Reporting.
    D. Responsibilities.

65. To exercise due care, an accountant should

    A. Take continuing professional education classes.
    B. Report whether the financial statements are in accordance with GAAP.
    C. Gather enough audit evidence to have complete assurance that there is enough support for the opinion on the financial statements.
    D. Conduct the engagement in accordance with GAAS and ensure that the engagement is completed on a timely basis.

66. One of an accounting firm's basic objectives is to provide professional services that conform to professional standards. Reasonable assurance of achieving this objective can be obtained by following

    A. Generally accepted auditing standards (GAAS).
    B. Standards within a system of quality control.
    C. Generally accepted accounting practices (GAAP).
    D. International auditing standards.

67. Which of the following best demonstrates the concept of professional skepticism?

    A. Relying more extensively on external evidence rather than internal evidence.
    B. Focusing on items that have a more significant quantitative effect on the entity's financial statements.
    C. Critically assessing verbal evidence received from the entity's management.
    D. Evaluating potential financial interests held by auditors in the client.

68. The primary purpose for obtaining an understanding of the entity's environment (including its internal control) in a financial statement audit is

A. To determine the nature, timing, and extent of substantive procedures to be performed.
B. To make consulting suggestions to the management.
C. To obtain direct sufficient appropriate audit evidence to afford a reasonable basis for an opinion on the financial statements.
D. To determine whether the entity has changed any accounting principles.

69. Ordinarily, what source of evidence should least affect audit conclusions?

A. External documentary evidence.
B. Inquiry of management.
C. Documentation prepared by the audit team.
D. Inquiry of entity legal counsel.

70. The most persuasive evidence regarding the existence of newly acquired computer equipment is

A. Inquiry of management.
B. Documentation prepared externally.
C. Observation of auditee's procedures.
D. Physical observation.

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

A. Inquiries of the client's internal audit staff.
B. Inspection of prenumbered client purchase orders filed in the vouchers payable department.
C. Inspection of vendor sales invoices received from client personnel.
D. Inspection of bank statements obtained directly from the client's financial institution.

72. Breaux & Co., CPAs require that all audit documentation indicate the identity of the preparer and the reviewer. This procedure provides evidence relating to which of the following?

A. Independence.
B. Adequate competence and capabilities.
C. Adequate planning and supervision.
D. Gathering sufficient appropriate evidence.

73. Which of the following concepts is *least* related to the standard of due care?

A. Independence in fact.
B. Professional skepticism.
C. Prudent auditor.
D. Reasonable assurance.

74. The evidence considered most appropriate by auditors is best described as

A. Internal documents such as sales invoice copies produced under conditions of strong internal control.
B. Written representations made by the president of the entity.
C. Documentary evidence obtained directly from independent external sources.
D. Direct personal knowledge obtained through physical observation and mathematical recalculation.

75. Auditors' understanding of the internal control in an entity contributes information for

A. Determining whether members of the audit team have the required competence and capabilities to perform the audit.
B. Ascertaining the independence in mental attitude of members of the audit team.
C. Planning the professional development courses the audit staff needs to keep up to date with new auditing standards.
D. Planning the nature, timing, and extent of substantive procedures on an audit.

76. Which of the following elements of a system of quality control is related to firms receiving independence confirmations from its professionals with respect to clients?

A. Acceptance and continuance of client relationships and specific engagements.
B. Engagement performance.
C. Monitoring.
D. Relevant ethical requirements.

77. Which of the following is most closely related to the responsibilities principle?

A. The auditors' responsibility to issue a report as a result of their examination.
B. The requirement that auditors gather sufficient, appropriate evidence upon which to base an opinion on the financial statements.
C. The auditors' compliance with relevant ethical requirements of independence and due care.
D. The auditors' responsibility to plan the audit and properly supervise assistants.

78. Kramer, CPA consulted an independent appraiser regarding the valuation of fine art for a not-for-profit museum. Consultation with a specialist in this case would

A. Be considered as exercising proper due care.
B. Be considered a failure to follow GAAS because Kramer should have known how to value fine art before accepting the engagement.
C. Not be considered a violation of GAAS because GAAS does not apply to not-for-profit entities.
D. None of the above.

79. Which of the following topics is *not* addressed in the auditors' report for a public entity?

A. Responsibilities of the auditor and management in the financial reporting process.
B. Absolute assurance regarding the fairness of the entity's financial statements in accordance with GAAP.
C. A description of an audit engagement.
D. A summary of the auditors' opinion on the effectiveness of the entity's internal control over financial reporting.

80. Which of the following recognizes that an audit conducted under generally accepted auditing standards may not detect all material misstatements?

A. Absolute assurance.
B. Professional judgment.
C. Persuasiveness of audit evidence.
D. Reasonable assurance.

81. Which of the following combinations would provide the auditor the most persuasive evidence?

	Source of Evidence	Effectiveness of Internal control
A.	Internal	More effective
B.	Internal	Less effective
C.	External	More effective
D.	External	Less effective

A. Option A
B. Option B
C. Option C
D. Option D

82. Which of the following is most closely related to the relevance of audit evidence?

A. Auditors decide to physically inspect investment securities held by a custodian instead of obtaining confirmations from the custodian.
B. In addition to confirmations of accounts receivable, auditors perform an analysis of the aging of accounts receivable to evaluate the collectability of accounts receivable.
C. In response to less effective internal control, auditors increase the number of customer accounts receivable confirmations mailed compared to that in the prior year.
D. Because of a large number of transactions occurring near year-end, auditors decide to confirm a larger number of receivables following year-end instead of during the interim period.

83. Which of the following statements is *not* true with respect to the performance principle?

A. Auditors are required to prepare a written audit plan during the planning stages of initial audits but are not required to do so in continuing audits.
B. Audit teams consider materiality in planning the audit, performing the audit, and evaluating the effect of misstatements on the entity's financial statements.
C. In assessing the risk of material misstatements, the audit team considers the effectiveness of the entity's internal controls in preventing and detecting misstatements.
D. Auditors are required to consider both the relevance and reliability of evidence in evaluating whether the evidence they have gathered is appropriate.

84. Which of the following is true with respect to PCAOB inspections of accounting firms?

A. All firms performing audits of public companies are required to have annual inspections conducted by the PCAOB.
B. PCAOB inspections review a sample of audits conducted by firms as well as the firm's systems of quality control.
C. All results of PCAOB inspections are made available to the public following the inspection.
D. Firms performing audits of 100 or fewer public entities may elect to have a peer review conducted through the AICPA in lieu of a PCAOB inspection.

85. (Appendix) Which of the following is a conceptual difference between 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 is not required under attestation standards.
C. The attestation standards do not permit an attestation engagement to examine prospective "what-if " financial statements.
D. Requirements related to evidence are not included in the attestation standards.

86. (Appendix) The attestation standards do *not* contain a requirement that auditors obtain

A. Adequate knowledge in the subject matter of the assertions being examined.
B. An understanding of the auditee's internal controls.
C. Sufficient evidence for the conclusions expressed in an attestation report.
D. Independence in mental attitude.

87. Which of the following best describes the general contents of the introductory paragraph of the auditors' report?

A. A description of an audit examination, including the fact that the audit was conducted under standards established by the PCAOB.
B. The auditors' conclusion with respect to the fairness of the entity's financial statements.
C. Statements identifying the responsibility of auditors and management in the financial reporting process.
D. The auditors' conclusion with respect to the effectiveness of the entity's internal control over financial reporting.

88. Which of the following opinions would be issued if auditors believed that the entity's financial statements were *not* presented in conformity with GAAP?

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

89. Which of the following principles is most closely associated with the auditors' conclusion as to the fair presentation of the entity's financial statements?

A. Communication principle.
B. Performance principle.
C. Reporting principle.
D. Responsibilities principle.

90. (Appendix) The attestation standards are a general set of standards intended to guide work in

A. Audits of financial statements.
B. Financial forecasts and prospective financial information.
C. Areas other than audits of financial statements.
D. Understanding internal control.

91. Auditing standards are considered to be

A. Specialized to obtain evidence to render an opinion.
B. Guides for the quality of audits that apply to all audits.
C. Standards for preparation of financial statements.
D. Standards to govern the quality of a specific firm's audit practice.

92. Which of the following is *not* related to the performance principle of GAAS?

A. Risk of material misstatement.
B. Planning and supervision.
C. Sufficient appropriate evidence.
D. Due care.

93. Which of the following statements is more closely related to independence in fact rather than independence in appearance?

A. The auditors' actual state of mind and unbiased mental attitude.
B. Ownership of a financial interest in a client by an auditors' spouse.
C. Employment of an auditors' child in a position of influence within a client.
D. Ownership of a financial interest in a client by an auditors' distant relative.

94. The human resources element of quality control in a public accounting firm includes which of the following?

A. Supervision appropriate for the competencies of the personnel assigned to the work is important.
B. Professional development should be provided so that personnel will have the knowledge required to enable them to fulfill their responsibilities.
C. People at all organizational levels must maintain independence in fact and appearance.
D. When accepting and continuing client relationships, firms should consider their own competence.

95. The application of relevant training, knowledge, and experience in making informed decisions about appropriate courses of action during an audit is known as

A. Absolute assurance.
B. Professional judgment.
C. Professional skepticism.
D. Reasonable assurance.

96. Which of the following situations would provide auditors with a lower level of detection risk?

A. Inspecting an item rather than directly confirming the existence of that item with third parties.
B. Evaluating a smaller number of transactions or components of an account balance.
C. Relying extensively on verbal inquiry of client personnel in gathering evidence.
D. Examining an account that is more susceptible to misstatement because of complex calculations and accounting methods.

97. The opinion paragraph of the auditors' report includes a statement that

A. The financial statements are the responsibility of management.
B. The audit was conducted in accordance with generally accepted auditing standards.
C. The audit provides a reasonable basis for an opinion.
D. The financial statements are presented in conformity with a financial reporting framework such as generally accepted accounting principles.

98. When financial statements do not present fairly the financial condition, results of operations, and cash flows of an entity, an auditor would mostly likely issue a(n):

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

99. To ensure that a public accounting firm is providing services that conform to professional standards, the firm should follow

A. The performance principle of GAAS.
B. Its system of quality control.
C. Generally accepted accounting principles.
D. International auditing standards.

Fill in the Blank Questions

100. ________________________________ standards are a general set of standards to guide engagements in areas other than audits of financial statements.

____

101. Audits of historical financial statements are guided by a broad set of principles referred to as ____.

____

102. The concept of ________________ refers to the nature of information provided by evidence and the management assertions related to that evidence.

____

103. The AICPA's fundamental principles of generally accepted auditing standards are classified in three categories: _________________________ principle, _________________________ principle, and the ________________________________ principle.

____

104. A(n) _________________________ is a list of auditing procedures that will be performed during the engagement to gather sufficient appropriate evidence.

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105. The ______________________ principle of GAAS highlights the importance of complying with ethical requirements, including those pertaining to independence and due care of auditors.

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106. ________________________________ is a state of mind that is characterized by appropriate questioning and a critical assessment of audit evidence.

____

107. The concept of independence in _____________________________ relates to financial statement users' perceptions of auditors' independence.

____

108. The exercise of ________________________ reflects a level of performance that would be exercised by reasonable auditors in similar circumstances.

____

109. Written corroboration of information received verbally from management is referred to as ____.

____

110. In the United States, the auditors' report must state whether the financial statements are presented in accordance with ___________________________________.

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111. Under the ____________________________ principle of GAAS, the auditor expresses an opinion in accordance with the auditor's findings.

____

112. Under the reporting principle of GAAS, the report will contain either an expression of ______________________ regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed.

____

113. An overall opinion that the financial statements present the financial condition, results of operations, and cash flows according to generally accepted accounting principles is a(n) _____________________________ opinion.

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114. To properly plan the audit, auditors should be engaged before the client's fiscal year-end or date of the ______________________________.

____

115. The concept of _________________________ recognizes that auditors should focus on matters that are important to financial statement users.

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116. The risk of ___________________________ is a combination of the probability that a material misstatement will occur and not be detected by the entity's internal controls.

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117. To perform its monitoring function, the PCAOB conducts periodic _____________________________ of the quality of work performed by accounting firms that audit public entities.

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118. The __________________________________ Act of 2002 created the Public Company Accounting Oversight Board.

____

119. To ensure that their personnel comply with professional standards and issue reports that are appropriate in the circumstances, firms develop systems of ________________________.

____

Short Answer Questions

120. For each of the matters below, indicate through the appropriate letter the fundamental principle to which the matter is most closely related.

A. Responsibilities principle
B. Performance principle
C. Reporting principle

_____ 1. Maintaining professional skepticism.
_____ 2. An auditor's overall conclusion of the fairness of the client's financial statements.
_____ 3. The use of an audit plan to identify audit procedures to be performed during the engagement.
_____ 4. Auditors' assessment of the risk of material misstatement.
_____ 5. Accounting firm policies with respect to the level of expected continuing professional education.
_____ 6. Expressing an opinion in accordance with the auditor's findings.
_____ 7. Proper supervision of assistants on the audit.
_____ 8. Auditors' requests to obtain bank statements directly from financial institutions with which the client does business.
_____ 9. An indication that an opinion cannot be expressed.
_____ 10. Determining and applying an appropriate materiality level.

121. Using I (introductory), S (scope), O (opinion), A (additional), or N (none), indicate the paragraph in which the following statements or topics would be included in the auditors' report.

____ 1. The titles of the financial statements examined by the auditors.
____ 2. A description of any scope limitation(s) encountered during the audit.
____ 3. A statement that auditors were independent with respect to the entity.
____ 4. The auditors' conclusion with respect to the fairness of the entity's financial statements.
____ 5. A statement that an audit was conducted in accordance with standards of the PCAOB.
____ 6. A statement that the entity's management is responsible for the fairness of the financial statements.
____ 7. A description of an audit, which includes examining evidence in support of the financial statements.
____ 8. Reference to generally accepted accounting principles.
____ 9. A description of any specific departures from GAAP noted during the audit that were material.
____ 10. A statement that the financial statements were consistently prepared compared to those of prior period(s).

122. Identify each of the following statements as being related to the responsibilities (RSP), performance (P), or reporting (RPT) principles.

______ 1. Evaluating audit firm personnel's independence with respect to a prospective client.

______ 2. Gathering sufficient, appropriate evidence.

______ 3. Exercising an appropriate level of professional skepticism.

______ 4. Issuing a qualified opinion because of a material, yet not pervasive, departure from GAAP.

______ 5. Establishing materiality levels for use in determining the amount of evidence to be gathered.

______ 6. Considering the susceptibility of the account balance to misstatement to assess the risk of material misstatement.

______ 7. Possessing the appropriate competence and capabilities to perform the audit.

______ 8. Considering whether a scope limitation precludes sufficient evidence to allow an opinion to be expressed on the entity's financial statements.

______ 9. Planning the work to provide reasonable assurance that the financial statements are free from material misstatement.

______ 10. Evaluating the potential relationships between the auditor and family who are employed by the entity.

Essay Questions

123. (Appendix) Distinguish between attestation standards and the fundamental principles of generally accepted auditing standards by identifying and describing major differences between the two sets of standards.

124. 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 intends to use its audited financial statements to secure a loan.

Fallon 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 plan 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 Fallon that the audit plan did not always match what they found at Mellow Markets. Fallon responded, "Just cross out whatever is not relevant in the audit plan and don't add anything - it will only make us go over the budget." When Fallon came to the client near the end of fieldwork, one assistant was concerned that no inventory observation was done at the out-of-town locations of Mellow Markets (the audit plan 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. Fallon 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, Fallon reviewed all audit documentation and submitted the job for review by the manager.

Required:

1. Describe the performance principle of GAAS.
2. Do you believe that the Mellow Markets audit complies with the performance principle? Explain.

Chapter 02 Professional Standards Answer Key

True / False Questions

1. Auditors may be independent in fact but not independent in appearance.

TRUE

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Topic: Fundamental Principle: Responsibilities

2. *Auditing Standards* issued by the PCAOB are the sole source of guidance for audits of public entities.

FALSE

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Understand the development and source of generally accepted auditing standards.
Topic: Generally Accepted Auditing Standards

3. Attestation standards provide guidance for a wide variety of engagements different in scope than an audit.

TRUE

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.
Topic: (Appendix) Attestation Standards

4. Generally accepted auditing standards must be followed on all audit engagements.

TRUE

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Understand the development and source of generally accepted auditing standards.
Topic: Generally Accepted Auditing Standards

5. The reporting principle relates to a firm's system of quality control criteria for conducting an audit.

FALSE

Reference: Question also found in study guide.

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Topic: Fundamental Principle: Reporting

6. Auditors cannot effectively satisfy the responsibilities principle requiring due care if they have not also satisfied the performance principle.

<u>TRUE</u>

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Topic: Fundamental Principle: Responsibilities

7. Substantive procedures performed by the audit team are most closely related to the risk of material misstatement.

<u>FALSE</u>

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Topic: Fundamental Principle: Performance

8. Auditing procedures are the same as auditing standards.

<u>FALSE</u>

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.

Topic: Fundamental Principle: Performance

9. The concept of due care reflects the need to plan and perform the audit with an appropriate level of professional skepticism.

   TRUE

   Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Topic: Fundamental Principle: Responsibilities

10. Under the performance principle, auditors are required to provide absolute assurance that the client's financial statements do not contain material misstatements.

    FALSE

    Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Topic: Fundamental Principle: Performance

11. The performance principle sets forth the quality criteria for conducting an audit.

    TRUE

    Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making

Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Topic: Fundamental Principle: Performance

12. Auditors of public entities registered with the Securities and Exchange Commission are required to register with the Public Company Accounting Oversight Board.

    TRUE

    Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Topic: Evaluating the Quality of Public Accounting Firms' Practices

13. Control risk is the probability that a material misstatement (error or fraud) could occur and not be prevented or detected on a timely basis by the auditors' substantive procedures.

    FALSE

    Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Topic: Fundamental Principle: Performance

14. The word *appropriateness* refers to the number of transactions or components of an account balance examined by auditors.

FALSE

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Topic: Fundamental Principle: Performance

15. To be considered material, an item must be one that would influence the decision of financial statement users.

TRUE

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Topic: Fundamental Principle: Performance

16. The contents of the auditors' report are guided by the performance principle of GAAS.

FALSE

Reference: Question also found in study guide.

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.

Topic: Fundamental Principle: Reporting

17. An unqualified opinion indicates that the financial statements present the entity's financial condition, results of operations, and cash flows in conformity with GAAP.

TRUE

Reference: Question also found in study guide.

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Topic: Fundamental Principle: Reporting

18. The auditors' report should either contain an expression of opinion on the financial statements taken as a whole or an assertion to the effect that an opinion cannot be expressed.

TRUE

Reference: Question also found in study guide.

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Topic: Fundamental Principle: Reporting

19. Evidence is considered appropriate when it is both valid and relevant.

TRUE

Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making

Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Topic: Fundamental Principle: Performance

20. The purpose of a system of quality control is to provide reasonable assurance that the firm and its personnel issue reports that are appropriate under the circumstances.

    TRUE

    Reference: Question also found in study guide.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Topic: Evaluating the Quality of Public Accounting Firms' Practices

Multiple Choice Questions

21. (Appendix) The attestation standards do *not* require the attestation report to include a statement that

    A. Provides a conclusion whether the subject matter is presented in conformity with established or stated criteria.
    B. Indicates that the practitioner has significant reservations about the engagement.
    C. Identifies the subject matter or assertion being reported on.
    D. Indicates that the accountant assumes no responsibility to update the report.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.

Source: Original
Topic: Attestation Standards

22. 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Risk Analysis
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Control Risk

23. The responsibilities principle under generally accepted auditing standards does *not* include which of the following?

A. Competence and capabilities.
B. Independent attitude.
C. Due care.
D. Planning and supervision.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Responsibilities Principle

24. Which of the following types of auditors' reports does not require an explanatory paragraph to support the opinion?

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

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

25. Which of the following is an element of a system of quality control that should be considered by a public accounting firm in establishing its quality control policies and procedures?

A. Lending credibility to a client's financial statements.
B. Using statistical sampling techniques.
C. Accepting and continuing client relationships and specific engagements.
D. Obtaining membership in the Center for Public Company Audit Firms.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original
Topic: Quality Control

26. 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 a 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: AICPA
Topic: Evidence

27. An important role of the Public Company Accounting Oversight Board 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 public entities.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Understand the development and source of generally accepted auditing standards.
Source: Original
Topic: PCAOB

28. 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: AICPA
Topic: Evidence

29. Which of the following is *not* considered a type of audit evidence?

A. Entity's trial balance.
B. Auditors' calculations.
C. Physical observation.
D. Verbal statements made by client personnel.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

30. (Appendix) The AICPA attestation standards differ from the responsibilities principle, performance principle, and reporting principle in that:

A. The attestation standards contain no requirement to obtain an understanding of the entity and assess the risk of material misstatement.
B. The attestation standards do not require competence and capabilities.
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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.
Source: Original
Topic: Attestation Standards

31. 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 complete examination of Camden's records and verify all of Camden's transactions.
C. Give an opinion on the fair presentation of Camden's financial statements in conformity with the applicable financial reporting framework (e.g., GAAP, IFRS).
D. Give an opinion on the attractiveness of Camden for investment purposes and critique the wisdom and legality of its business decisions.

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Reporting Principle

32. 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 responsibilities principle.
D. Maintain an unbiased mental attitude.

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Independence

33. The preparation of an audit plan prior to the beginning of fieldwork is appropriately considered documentation of

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

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Audit Plan

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

A. Inquiries of the client's accounting staff held in private.
B. Inspection of prenumbered client shipping documents.
C. Inspection of bank statements obtained directly from the client's financial institution.
D. Analytical procedures performed by auditors on the client's trial balance.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: AICPA
Topic: Evidence

35. (Appendix) 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.
Source: AICPA
Topic: Attestation Standards

36. Which of the following would most likely be a violation of the independence requirement found in the responsibilities principle 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 financial interest in the client's stock.
D. The client provides financial support to a number of charitable causes that also receive support from the accounting firm.

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Research
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Independence

37. 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

38. 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Decision Making
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: AICPA
Topic: Evidence

39. The standard auditors' report refers to standards of the PCAOB and GAAP in which paragraph?

A. Standards of the PCAOB: Scope only; GAAP: Opinion only
B. Standards of the PCAOB: Introductory only; GAAP: Scope and opinion
C. Standards of the PCAOB: Introductory and scope; GAAP: Opinion only
D. Standards of the PCAOB: Introductory only; GAAP: All paragraphs

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: AICPA
Topic: Auditors' Report

40. 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.

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

41. Internal evidence

A. Is obtained directly from third parties independent of the client.
B. Originates outside 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

42. 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: AICPA
Topic: Evidence

43. 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.

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: AICPA
Topic: Reporting Principle

44. Which of the following is *not* a concept from the performance principle under generally accepted auditing standards?

A. The auditor must plan the work and properly supervise any assistants.
B. The auditor must express an opinion in accordance with the auditor's findings.
C. The auditor must obtain sufficient appropriate evidence about whether material misstatements exist.
D. The auditor must determine and apply an appropriate materiality level throughout the audit.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Performance Principle

45. Under generally accepted auditing standards, which of the following relates to the responsibilities principle?

A. The initial planning of the audit engagement.
B. The confirmation of accounts receivable.
C. The completion of an internal control questionnaire.
D. Maintaining professional skepticism and exercising professional judgment.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Responsibilities Principle

46. Which of the following represent(s) audit quality guides that remain stable over time and are applicable for all audits?

A. Auditing procedures.
B. Auditing standards.
C. Due care.
D. System of quality control.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original
Topic: Quality Control

47. Which of the following situations would most likely be in conflict with the responsibilities principle?

A. Auditors perform the engagement with the performance level expected 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 directly involved with a client manager in a strategic decision-making capacity.
D. Auditors fail to document their assessment of control risk following their study of internal control.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Independence

48. 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.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

49. 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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

50. 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.

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

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

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.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Risk Analysis
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Internal Control

52. Which reporting options do auditors have if the client's financial statements are *not* presented according to the applicable financial framework (e.g., GAAP, IFRS)?

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

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

53. Which of the following statements is true with respect to the persuasiveness of audit evidence?

A. Persuasiveness is related to the relevance of evidence but not the reliability of evidence.
B. Evidence is considered more persuasive when gathered prior to year-end than following year-end.
C. Evidence obtained under environments of stronger internal control is more persuasive than evidence obtained under environments of weaker internal control.
D. In evaluating persuasiveness, sufficiency of evidence is of more importance than appropriateness of evidence.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

54. Which of the following concepts is least related to the risk of material misstatement?

A. Control risk.
B. Detection risk.
C. Inherent risk.
D. Materiality.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Risk Analysis
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Risk of Material Misstatement

55. Which of the following statements describes an appropriate relationship with respect to the reliability of audit evidence?

A. Receiving confirmation from third parties as to the existence of securities is more reliable than the auditors' personal inspection of those securities.
B. Verbal inquiries received from the client regarding sales made to customers are more reliable than sales invoices prepared by the client for its customers.
C. A bank confirmation received directly by the auditor is more reliable than a bank confirmation initially received by the client and forwarded to the auditor.
D. Evidence drawn from a document prepared by the client is more reliable than evidence drawn from a document prepared by an external party that is forwarded to the auditor by the client.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Risk Analysis
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

56. A periodic review of an audit firm's system of quality control by the PCAOB is referred to as a(n):

A. Inspection.
B. Peer review.
C. Principles review.
D. Quality review.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original
Topic: PCAOB Inspection

57. The performance principle would include all of the following *except*

A. The auditors' determination of materiality levels.
B. The auditors' evaluation of independence with respect to their clients.
C. The auditors' evaluation of the risk of material misstatement.
D. The auditors' determination of the nature, timing, and extent of substantive tests.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Performance Principle

58. Which of the following is most closely associated with the responsibilities principle?

A. Due care.
B. Planning.
C. Qualified audit opinion.
D. Risk of material misstatement.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Responsibilities Principle

59. Which of the following statements is *not* true with respect to the responsibility for establishing generally accepted auditing standards?

A. The PCAOB issues auditing standards for the audit of public entities subject to SEC approval.
B. Standards issued by the Auditing Standards Board after 2003 apply to the audits of both public and private entities.
C. If not superseded by the PCAOB, Statements on Auditing Standards issued prior to 2003 are applicable to the audit of public entities.
D. Prior to the Sarbanes-Oxley Act, the Auditing Standards Board issued auditing standards for the audits of both public and private entities.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Analytic
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Understand the development and source of generally accepted auditing standards.
Source: Original
Topic: Generally Accepted Auditing Standards

60. Which of the following would normally be considered earliest in the audit examination?

A. Determination of materiality levels to use during the audit.
B. Consideration of the ability of the entity's internal control to prevent or detect errors.
C. Preparation of a written audit plan.
D. Evaluation of the type of audit opinion to be issued based on the auditor's findings.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Research
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Performance Principle

61. The state of mind that characterizes the auditors' appropriate questioning and critical assessment of audit evidence is referred to as:

A. Due care.
B. Independence in appearance.
C. Professional judgment.
D. Professional skepticism.

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Professional Skepticism

62. Which of the following is *least* related to the concept of independence in appearance?

A. The auditors' objectivity and ability to act impartially toward the client.
B. The perceptions of individuals who rely on the financial statements and auditors' opinion on the financial statements.
C. The ownership of a financial interest in a client by the auditor.
D. The employment of the auditor's family member in an important position with the client.

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Decision Making
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Independence

63. Which concept recognizes that a GAAS audit may fail to detect all material misstatements?

A. Absolute assurance.
B. Due care.
C. Reasonable assurance.
D. Risk of material misstatement.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Risk Analysis
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Reasonable Assurance

64. Which of the following categories of principles is most closely related to gathering audit evidence?

A. Performance.
B. Reasonable assurance.
C. Reporting.
D. Responsibilities.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

65. To exercise due care, an accountant should

A. Take continuing professional education classes.
B. Report whether the financial statements are in accordance with GAAP.
C. Gather enough audit evidence to have complete assurance that there is enough support for the opinion on the financial statements.
D. Conduct the engagement in accordance with GAAS and ensure that the engagement is completed on a timely basis.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Due Care

66. One of an accounting firm's basic objectives is to provide professional services that conform to professional standards. Reasonable assurance of achieving this objective can be obtained by following

A. Generally accepted auditing standards (GAAS).
B. Standards within a system of quality control.
C. Generally accepted accounting practices (GAAP).
D. International auditing standards.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original
Topic: Quality Control

67. Which of the following best demonstrates the concept of professional skepticism?

A. Relying more extensively on external evidence rather than internal evidence.
B. Focusing on items that have a more significant quantitative effect on the entity's financial statements.
C. Critically assessing verbal evidence received from the entity's management.
D. Evaluating potential financial interests held by auditors in the client.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Professional Skepticism

68. The primary purpose for obtaining an understanding of the entity's environment (including its internal control) in a financial statement audit is

A. To determine the nature, timing, and extent of substantive procedures to be performed.
B. To make consulting suggestions to the management.
C. To obtain direct sufficient appropriate audit evidence to afford a reasonable basis for an opinion on the financial statements.
D. To determine whether the entity has changed any accounting principles.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Risk of Material Misstatement

69. Ordinarily, what source of evidence should least affect audit conclusions?

A. External documentary evidence.
B. Inquiry of management.
C. Documentation prepared by the audit team.
D. Inquiry of entity legal counsel.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Decision Making
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

70. The most persuasive evidence regarding the existence of newly acquired computer equipment is

A. Inquiry of management.
B. Documentation prepared externally.
C. Observation of auditee's procedures.
D. Physical observation.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

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

A. Inquiries of the client's internal audit staff.
B. Inspection of prenumbered client purchase orders filed in the vouchers payable department.
C. Inspection of vendor sales invoices received from client personnel.
D. Inspection of bank statements obtained directly from the client's financial institution.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

72. Breaux & Co., CPAs require that all audit documentation indicate the identity of the preparer and the reviewer. This procedure provides evidence relating to which of the following?

A. Independence.
B. Adequate competence and capabilities.
C. Adequate planning and supervision.
D. Gathering sufficient appropriate evidence.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Planning and Supervision

73. Which of the following concepts is *least* related to the standard of due care?

A. Independence in fact.
B. Professional skepticism.
C. Prudent auditor.
D. Reasonable assurance.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Responsibilities Principle

74. The evidence considered most appropriate by auditors is best described as

A. Internal documents such as sales invoice copies produced under conditions of strong internal control.
B. Written representations made by the president of the entity.
C. Documentary evidence obtained directly from independent external sources.
D. Direct personal knowledge obtained through physical observation and mathematical recalculation.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

75. Auditors' understanding of the internal control in an entity contributes information for

A. Determining whether members of the audit team have the required competence and capabilities to perform the audit.
B. Ascertaining the independence in mental attitude of members of the audit team.
C. Planning the professional development courses the audit staff needs to keep up to date with new auditing standards.
D. Planning the nature, timing, and extent of substantive procedures on an audit.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Decision Making
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.

Source: Original
Topic: Internal Control

76. Which of the following elements of a system of quality control is related to firms receiving independence confirmations from its professionals with respect to clients?

A. Acceptance and continuance of client relationships and specific engagements.
B. Engagement performance.
C. Monitoring.
D. Relevant ethical requirements.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original
Topic: Independence

77. Which of the following is most closely related to the responsibilities principle?

A. The auditors' responsibility to issue a report as a result of their examination.
B. The requirement that auditors gather sufficient, appropriate evidence upon which to base an opinion on the financial statements.
C. The auditors' compliance with relevant ethical requirements of independence and due care.
D. The auditors' responsibility to plan the audit and properly supervise assistants.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Independence

78. Kramer, CPA consulted an independent appraiser regarding the valuation of fine art for a not-for-profit museum. Consultation with a specialist in this case would

A. Be considered as exercising proper due care.
B. Be considered a failure to follow GAAS because Kramer should have known how to value fine art before accepting the engagement.
C. Not be considered a violation of GAAS because GAAS does not apply to not-for-profit entities.
D. None of the above.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Competence and Capabilities

79. Which of the following topics is *not* addressed in the auditors' report for a public entity?

A. Responsibilities of the auditor and management in the financial reporting process.
B. Absolute assurance regarding the fairness of the entity's financial statements in accordance with GAAP.
C. A description of an audit engagement.
D. A summary of the auditors' opinion on the effectiveness of the entity's internal control over financial reporting.

Reference: Question also found in textbook

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

80. Which of the following recognizes that an audit conducted under generally accepted auditing standards may not detect all material misstatements?

A. Absolute assurance.
B. Professional judgment.
C. Persuasiveness of audit evidence.
D. Reasonable assurance.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Risk Analysis
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Reasonable Assurance

81. Which of the following combinations would provide the auditor the most persuasive evidence?

	Source of Evidence	Effectiveness of Internal control
A.	Internal	More effective
B.	Internal	Less effective
C.	External	More effective
D.	External	Less effective

A. Option A
B. Option B
C. Option C
D. Option D

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Evaluate
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

82. Which of the following is most closely related to the relevance of audit evidence?

A. Auditors decide to physically inspect investment securities held by a custodian instead of obtaining confirmations from the custodian.
B. In addition to confirmations of accounts receivable, auditors perform an analysis of the aging of accounts receivable to evaluate the collectability of accounts receivable.
C. In response to less effective internal control, auditors increase the number of customer accounts receivable confirmations mailed compared to that in the prior year.
D. Because of a large number of transactions occurring near year-end, auditors decide to confirm a larger number of receivables following year-end instead of during the interim period.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Risk Analysis
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

83. Which of the following statements is *not* true with respect to the performance principle?

A. Auditors are required to prepare a written audit plan during the planning stages of initial audits but are not required to do so in continuing audits.
B. Audit teams consider materiality in planning the audit, performing the audit, and evaluating the effect of misstatements on the entity's financial statements.
C. In assessing the risk of material misstatements, the audit team considers the effectiveness of the entity's internal controls in preventing and detecting misstatements.
D. Auditors are required to consider both the relevance and reliability of evidence in evaluating whether the evidence they have gathered is appropriate.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Research
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Audit Planning

84. Which of the following is true with respect to PCAOB inspections of accounting firms?

A. All firms performing audits of public companies are required to have annual inspections conducted by the PCAOB.
B. PCAOB inspections review a sample of audits conducted by firms as well as the firm's systems of quality control.
C. All results of PCAOB inspections are made available to the public following the inspection.
D. Firms performing audits of 100 or fewer public entities may elect to have a peer review conducted through the AICPA in lieu of a PCAOB inspection.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original
Topic: PCAOB Inspection

85. (Appendix) Which of the following is a conceptual difference between 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 is not required under attestation standards.
C. The attestation standards do not permit an attestation engagement to examine prospective "what-if " financial statements.
D. Requirements related to evidence are not included in the attestation standards.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal

AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.
Source: Original
Topic: Attestation Standards

86. (Appendix) The attestation standards do *not* contain a requirement that auditors obtain

A. Adequate knowledge in the subject matter of the assertions being examined.
B. An understanding of the auditee's internal controls.
C. Sufficient evidence for the conclusions expressed in an attestation report.
D. Independence in mental attitude.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.
Source: Original
Topic: Attestation Standards

87. Which of the following best describes the general contents of the introductory paragraph of the auditors' report?

A. A description of an audit examination, including the fact that the audit was conducted under standards established by the PCAOB.
B. The auditors' conclusion with respect to the fairness of the entity's financial statements.
C. Statements identifying the responsibility of auditors and management in the financial reporting process.
D. The auditors' conclusion with respect to the effectiveness of the entity's internal control over financial reporting.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

88. Which of the following opinions would be issued if auditors believed that the entity's financial statements were *not* presented in conformity with GAAP?

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

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original

Topic: Auditors' Report

89. Which of the following principles is most closely associated with the auditors' conclusion as to the fair presentation of the entity's financial statements?

A. Communication principle.
B. Performance principle.
C. Reporting principle.
D. Responsibilities principle.

Reference: Question also found in textbook

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Reporting Principle

90. (Appendix) The attestation standards are a general set of standards intended to guide work in

A. Audits of financial statements.
B. Financial forecasts and prospective financial information.
C. Areas other than audits of financial statements.
D. Understanding internal control.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.
Source: Original
Topic: Attestation Standards

91. Auditing standards are considered to be

A. Specialized to obtain evidence to render an opinion.
B. Guides for the quality of audits that apply to all audits.
C. Standards for preparation of financial statements.
D. Standards to govern the quality of a specific firm's audit practice.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Understand the development and source of generally accepted auditing standards.
Source: Original
Topic: Generally Accepted Auditing Standards

92. Which of the following is *not* related to the performance principle of GAAS?

A. Risk of material misstatement.
B. Planning and supervision.
C. Sufficient appropriate evidence.
D. Due care.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Performance Principle

93. Which of the following statements is more closely related to independence in fact rather than independence in appearance?

<u>A.</u> The auditors' actual state of mind and unbiased mental attitude.
B. Ownership of a financial interest in a client by an auditors' spouse.
C. Employment of an auditors' child in a position of influence within a client.
D. Ownership of a financial interest in a client by an auditors' distant relative.

Reference: Question also found in study guide

AACSB: Ethics
AICPA BB: Critical Thinking
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Independence

94. The human resources element of quality control in a public accounting firm includes which of the following?

A. Supervision appropriate for the competencies of the personnel assigned to the work is important.
<u>B.</u> Professional development should be provided so that personnel will have the knowledge required to enable them to fulfill their responsibilities.
C. People at all organizational levels must maintain independence in fact and appearance.
D. When accepting and continuing client relationships, firms should consider their own competence.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original

Topic: Quality Control

95. The application of relevant training, knowledge, and experience in making informed decisions about appropriate courses of action during an audit is known as

A. Absolute assurance.
B. Professional judgment.
C. Professional skepticism.
D. Reasonable assurance.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Source: Original
Topic: Professional Judgment

96. Which of the following situations would provide auditors with a lower level of detection risk?

A. Inspecting an item rather than directly confirming the existence of that item with third parties.
B. Evaluating a smaller number of transactions or components of an account balance.
C. Relying extensively on verbal inquiry of client personnel in gathering evidence.
D. Examining an account that is more susceptible to misstatement because of complex calculations and accounting methods.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Risk Analysis
Blooms: Evaluate

Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Evidence

97. The opinion paragraph of the auditors' report includes a statement that

A. The financial statements are the responsibility of management.
B. The audit was conducted in accordance with generally accepted auditing standards.
C. The audit provides a reasonable basis for an opinion.
D. The financial statements are presented in conformity with a financial reporting framework such as generally accepted accounting principles.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

98. When financial statements do not present fairly the financial condition, results of operations, and cash flows of an entity, an auditor would mostly likely issue a(n):

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

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

99. To ensure that a public accounting firm is providing services that conform to professional standards, the firm should follow

A. The performance principle of GAAS.
B. Its system of quality control.
C. Generally accepted accounting principles.
D. International auditing standards.

Reference: Question also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Understand the role of a system of quality control and AICPA and PCAOB monitoring efforts in enabling public accounting firms to meet appropriate levels of professional quality.
Source: Original
Topic: Quality Control

Fill in the Blank Questions

100. ______________________________ standards are a general set of standards to guide engagements in areas other than audits of financial statements.

Attestation

Reference: Question also found in study guide

101. Audits of historical financial statements are guided by a broad set of principles referred to as ____.

<u>generally accepted auditing standards</u>

Reference: Question also found in study guide

102. The concept of _______________ refers to the nature of information provided by evidence and the management assertions related to that evidence.

<u>relevance</u>

Reference: Question also found in study guide

103. The AICPA's fundamental principles of generally accepted auditing standards are classified in three categories: ________________________ principle, ________________________ principle, and the ______________________________ principle.

<u>responsibilities; performance; reporting</u>

Reference: Question also found in study guide

104. A(n) ________________________ is a list of auditing procedures that will be performed during the engagement to gather sufficient appropriate evidence.

<u>audit plan</u>

Reference: Question also found in study guide

105. The ______________________ principle of GAAS highlights the importance of complying with ethical requirements, including those pertaining to independence and due care of auditors.

responsibilities

Reference: Question also found in study guide

106. ________________________________ is a state of mind that is characterized by appropriate questioning and a critical assessment of audit evidence.

Professional skepticism

Reference: Question also found in study guide

107. The concept of independence in _____________________________ relates to financial statement users' perceptions of auditors' independence.

appearance

Reference: Question also found in study guide

108. The exercise of ________________________ reflects a level of performance that would be exercised by reasonable auditors in similar circumstances.

due care

Reference: Question also found in study guide

109. Written corroboration of information received verbally from management is referred to as ____.

written representations (or management representations)

Reference: Question also found in study guide

110. In the United States, the auditors' report must state whether the financial statements are presented in accordance with ________________________________.

<u>generally accepted accounting principles</u>

Reference: Question also found in study guide

111. Under the ___________________________ principle of GAAS, the auditor expresses an opinion in accordance with the auditor's findings.

<u>reporting</u>

Reference: Question also found in study guide

112. Under the reporting principle of GAAS, the report will contain either an expression of ______________________ regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed.

<u>opinion</u>

Reference: Question also found in study guide

113. An overall opinion that the financial statements present the financial condition, results of operations, and cash flows according to generally accepted accounting principles is a(n) _____________________________ opinion.

<u>unqualified</u>

Reference: Question also found in study guide

114. To properly plan the audit, auditors should be engaged before the client's fiscal year-end or date of the ________________________________.

financial statements

Reference: Question also found in study guide

115. The concept of ___________________________ recognizes that auditors should focus on matters that are important to financial statement users.

materiality

Reference: Question also found in study guide

116. The risk of _____________________________ is a combination of the probability that a material misstatement will occur and not be detected by the entity's internal controls.

material misstatement

Reference: Question also found in study guide

117. To perform its monitoring function, the PCAOB conducts periodic _______________________________ of the quality of work performed by accounting firms that audit public entities.

inspections

Reference: Question also found in study guide

118. The ____________________________________ Act of 2002 created the Public Company Accounting Oversight Board.

Sarbanes-Oxley

Reference: Question also found in study guide

119. To ensure that their personnel comply with professional standards and issue reports that are appropriate in the circumstances, firms develop systems of ______________________.

quality control

Reference: Question also found in study guide

Short Answer Questions

120. For each of the matters below, indicate through the appropriate letter the fundamental principle to which the matter is most closely related.

A. Responsibilities principle
B. Performance principle
C. Reporting principle

____ 1. Maintaining professional skepticism.
____ 2. An auditor's overall conclusion of the fairness of the client's financial statements.
____ 3. The use of an audit plan to identify audit procedures to be performed during the engagement.
____ 4. Auditors' assessment of the risk of material misstatement.
____ 5. Accounting firm policies with respect to the level of expected continuing professional education.
____ 6. Expressing an opinion in accordance with the auditor's findings.
____ 7. Proper supervision of assistants on the audit.
____ 8. Auditors' requests to obtain bank statements directly from financial institutions with which the client does business.
____ 9. An indication that an opinion cannot be expressed.
____ 10. Determining and applying an appropriate materiality level.

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

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Analyze
Difficulty: 3 Hard
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Generally Accepted Auditing Standards

121. Using I (introductory), S (scope), O (opinion), A (additional), or N (none), indicate the paragraph in which the following statements or topics would be included in the auditors' report.

____ 1. The titles of the financial statements examined by the auditors.
____ 2. A description of any scope limitation(s) encountered during the audit.
____ 3. A statement that auditors were independent with respect to the entity.
____ 4. The auditors' conclusion with respect to the fairness of the entity's financial statements.
____ 5. A statement that an audit was conducted in accordance with standards of the PCAOB.
____ 6. A statement that the entity's management is responsible for the fairness of the financial statements.
____ 7. A description of an audit, which includes examining evidence in support of the financial statements.
____ 8. Reference to generally accepted accounting principles.
____ 9. A description of any specific departures from GAAP noted during the audit that were material.
____ 10. A statement that the financial statements were consistently prepared compared to those of prior period(s).

1. I, 2. A, 3. N, 4. O, 5. S, 6. I, 7. S, 8. O, 9. A, 10. N

Feedback: Reference: Question also found in study guide

AACSB: Communication
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Auditors' Report

122. Identify each of the following statements as being related to the responsibilities (RSP), performance (P), or reporting (RPT) principles.

______ 1. Evaluating audit firm personnel's independence with respect to a prospective client.
______ 2. Gathering sufficient, appropriate evidence.
______ 3. Exercising an appropriate level of professional skepticism.
______ 4. Issuing a qualified opinion because of a material, yet not pervasive, departure from GAAP.
______ 5. Establishing materiality levels for use in determining the amount of evidence to be gathered.
______ 6. Considering the susceptibility of the account balance to misstatement to assess the risk of material misstatement.
______ 7. Possessing the appropriate competence and capabilities to perform the audit.
______ 8. Considering whether a scope limitation precludes sufficient evidence to allow an opinion to be expressed on the entity's financial statements.
______ 9. Planning the work to provide reasonable assurance that the financial statements are free from material misstatement.
______ 10. Evaluating the potential relationships between the auditor and family who are employed by the entity.

1. RSP, 2. P, 3. RSP, 4. RPT, 5. P, 6. P, 7. RSP, 8. RPT, 9. P, 10. RSP

Feedback: Reference: Question is also found in study guide

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Describe the fundamental principle of responsibilities and how this principle relates to the characteristics and qualifications of auditors.
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Learning Objective: 02-04 Understand the fundamental principle of reporting and identify the basic contents of the auditors' report.
Source: Original
Topic: Generally Accepted Auditing Standards

Essay Questions

123. (Appendix) Distinguish between attestation standards and the fundamental principles of generally accepted auditing standards by identifying and describing major differences between the two sets of standards.

a. 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).

b. 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).

c. Practitioners can accept attestation engagements only if the subject matter is capable of being assessed against established criteria (because financial statements can always be assessed against GAAP, there is no requirement such as this in GAAS).

d. Attestation standards do not require auditors to obtain an understanding of the client to assess the risk of material misstatement.

e. Because 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."

f. Because 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).

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Evaluate
Difficulty: 3 Hard

Learning Objective: 02-06 (Appendix) Identify the need for attestation standards and the use of these standards in attestation engagements.
Source: Original
Topic: Attestation Standards

124. 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 intends to use its audited financial statements to secure a loan.

Fallon 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 plan 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 Fallon that the audit plan did not always match what they found at Mellow Markets. Fallon responded, "Just cross out whatever is not relevant in the audit plan and don't add anything - it will only make us go over the budget." When Fallon came to the client near the end of fieldwork, one assistant was concerned that no inventory observation was done at the out-of-town locations of Mellow Markets (the audit plan 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. Fallon 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, Fallon reviewed all audit documentation and submitted the job for review by the manager.

Required:

1. Describe the performance principle of GAAS.
2. Do you believe that the Mellow Markets audit complies with the performance principle? Explain.

According to the performance principle, to obtain reasonable assurance, which is high but not an absolute level of assurance, the auditor:

a. Plans the work and properly supervises any assistants.

b. Determines and applies appropriate materiality level or levels throughout the audit.

c. Identifies and assesses risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.

d. Obtains sufficient appropriate audit evidence about whether material misstatements exist through designing and implementing appropriate responses to the assessed risks.

e. The Mellow Markets audit does not comply with the performance principle. With respect to planning, the failure to prepare an appropriate audit plan and the lack of time and attention the inexperienced staff received from Fallon violate the performance principle. In addition, there is no indication that any steps were taken to either understand the client's business or its internal control. Finally, these deficiencies suggest that the appropriate procedures were not performed to collect sufficient appropriate evidence. Furthermore, the lack of a relevant plan to observe inventory in other cities and Fallon'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 an overall violation of the performance principle.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Describe the fundamental principle of performance and identify the major activities performed in an audit.
Source: Original
Topic: Performance Principle