

Chapter 2 The Public Accounting Profession and Audit Quality

2.1 Describe the public accounting industry

- 1) One of the main advantages of a "big" public accounting firm is
- A) their lower professional fees due to economies of scale.
 - B) their ability to share with the client knowledge and experience from similar companies they have audited.
 - C) their ability to audit nearly all the largest companies worldwide.
 - D) the increased reliability of their audit reports.

Answer: C

Diff: 2 Type: MC Page Ref: 27

Learning Obj.: 2-1 Describe the public accounting industry

- 2) National accounting firms in 2013 were those with
- A) offices in most major cities and revenues over \$100 million.
 - B) international representation in most cities around the world.
 - C) offices in all major cities in Canada and revenues over \$75 million.
 - D) national and international affiliations providing services in all major centres.

Answer: A

Diff: 3 Type: MC Page Ref: 27

Learning Obj.: 2-1 Describe the public accounting industry

- 3) Approximately how many public accounting firms in Canada have more than 50 professional staff?
- A) 25
 - B) 50
 - C) 75
 - D) 100

Answer: B

Diff: 3 Type: MC Page Ref: 28

Learning Obj.: 2-1 Describe the public accounting industry

- 4) What is the size of most public accounting firms in Canada?
- A) fewer than 25 employees
 - B) between 25 and 49 employees
 - C) between 50 and 75 employees
 - D) more than 75 employees

Answer: A

Diff: 3 Type: MC Page Ref: 28

Learning Obj.: 2-1 Describe the public accounting industry

5) The most common organizational form used by public accounting firms is

- A) sole proprietorship or partnership.
- B) professional corporation.
- C) corporation.
- D) co-operative.

Answer: A

Diff: 1 Type: MC Page Ref: 28

Learning Obj.: 2-1 Describe the public accounting industry

6) Large accounting firm are often limited liability partnerships (LLPs) because of their audits are conducted in accordance with GAAS,

- A) partners not on the engagement would not be liable on their personal assets.
- B) improved quality control practices can be initiated using technical personnel.
- C) more formal requirements are in place when reporting to federal tax authorities.
- D) partners are liable for only a limited portion of their personal assets when sued.

Answer: A

Diff: 3 Type: MC Page Ref: 28-29

Learning Obj.: 2-1 Describe the public accounting industry

7) Most international and national accounting firms in Canada are comprised of professional accountants with the designation

- A) CIA.
- B) CPA.
- C) CFE.
- D) CISA.

Answer: B

Diff: 2 Type: MC Page Ref: 29

Learning Obj.: 2-1 Describe the public accounting industry

8) What are the staff levels and responsibilities at Public Accounting firms?

Answer:

1. Partner - Leads the engagement, reviews the overall audit work, and is involved in significant audit decisions. A partner has the ultimate responsibility for conducting the audit and maintaining client relations.
2. Senior manager - Leads the engagement and reviews the team's work. Works directly with the partner and assists in client relationship.
3. Manager - Helps the in-charge plan and manage the audit, reviews the in-charges work, and manages relations with the client. A manager may be responsible for more than one engagement at the same time.
4. Senior or in-charge auditor - Coordinates and is responsible for the audit field work, including supervising and reviewing staff work.
5. Staff accountant - Performs most of the detailed audit work.

Diff: 2 Type: ES Page Ref: 28

Learning Obj.: 2-1 Describe the public accounting industry

9) What are the different business organization structures that an accountant may use? What are the advantages of these structures?

Answer: Accountants may establish a sole proprietorship, a partnership, a limited liability partnership, or a limited liability corporation. The latter two structures are permitted only in certain provinces, based upon provincial legislation.

Advantages:

A sole proprietorship is the only choice if there is only one PA. It is a simple business structure. A partnership is used to allocate income to all partners and helps ensure that all partners are responsible for the actions of the organization.

A limited liability partnership (or limited liability corporation) is used to limit liability to only those partners who worked on or supervised a particular engagement. This helps protect the personal assets of partners.

Diff: 2 Type: ES Page Ref: 28-29

Learning Obj.: 2-1 Describe the public accounting industry

2.2 Identify the organizations that affect the public accounting profession and their role

1) The *Canada Business Corporation Act* gave authority to Canadian accounting and auditing standard-setters by stating that financial statements

A) must be compiled in accordance with International Financial Reporting Standards.

B) should be prepared in accordance with the standards in the CPA Canada Handbook.

C) must be audited by accountants that reside in Canada.

D) should be prepared in accordance with local financial reporting standards.

Answer: B

Diff: 2 Type: MC Page Ref: 30-31

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

2) When the criteria to be used in the financial statement audit is established, the auditor's responsibility is to

A) evaluate the reporting framework used.

B) select the acceptable financial reporting framework.

C) make a recommendation to management for selecting the framework.

D) create and document the framework used.

Answer: A

Diff: 2 Type: MC Page Ref: 35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

- 3) The reason for adopting the CASs is to
- A) comply with requirements in the *Canada Business Corporations Act*.
 - B) respond to the increased litigation risks faced by auditors.
 - C) be consistent with the international standards of auditing.
 - D) simplify the auditing process.

Answer: C

Diff: 2 Type: MC Page Ref: 34-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

- 4) The implementation of the Sarbanes-Oxley requirements in the U.S. resulted in the creation of the PCAOB to oversee listed companies' auditors and develop audit standards. The impact of this requirement in Canada was

- A) the creation of new auditing standards to ensure better quality control for audits.
- B) revision to the rules of professional conduct for CPAs.
- C) additional training requirements for becoming an auditor.
- D) the creation of the CPAB to oversee Canadian audit professionals.

Answer: D

Diff: 3 Type: MC Page Ref: 31

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

- 5) The implementation of the Sarbanes-Oxley requirements in the U.S. resulted in increased independence requirements for auditors. The impact of this requirement in Canada was

- A) the creation of the CPAB to oversee Canadian audit professionals.
- B) revisions to the rules of professional conduct for CPAs.
- C) additional training requirements for becoming an auditor.
- D) modification of the type of opinion provided in an assurance engagement by an auditor.

Answer: B

Diff: 3 Type: MC Page Ref: 31

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

- 6) What is an auditor required to do with respect to a client's financial reporting framework?

- A) assess whether the framework selected by management is suitable
- B) select an applicable framework for use with the financial statements
- C) make sure that ASPE or ASNPO are in use for publicly listed companies
- D) select the accounting principles to be used as part of the reporting framework

Answer: A

Diff: 2 Type: MC Page Ref: 34-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

7) What is one of the ways that the Canadian Auditing Standards (CASs) make management directly responsible for an organization's financial statements?

- A) all listed company management must certify the accuracy of the evidence provided
- B) management must provide evidence to support financial statement data
- C) management must implement and carry out development of high-quality internal controls
- D) companies must use internal auditors to assess the quality of the financial statements

Answer: B

Diff: 3 Type: MC Page Ref: 31

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

8) What is one of the ways that the Canadian Auditing Standards (CASs) make management directly responsible for an organization's financial statements?

- A) all listed company management must certify the accuracy of the evidence provided
- B) management must implement and carry out development of high-quality internal controls
- C) management must acknowledge and understand its responsibilities
- D) companies must use internal auditors to assess the quality of the financial statements

Answer: C

Diff: 2 Type: MC Page Ref: 31

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

9) Canadian Auditing Standards (CASs) require that an audit be conducted using

- A) a controls-testing approach.
- B) a risk-assessment approach.
- C) a substantive approach.
- D) a standard approach.

Answer: B

Diff: 3 Type: MC Page Ref: 34-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

10) Canadian Auditing Standards (CASs) are best described as

- A) the CPA Canada Handbook, plus published research and public accounting firm practices in auditing.
- B) Canadian generally accepted auditing practices developed by public accounting firms.
- C) material that is fully codified in the CPA Handbook developed in Canada.
- D) the existing research that has been published about auditing that is used by firms.

Answer: A

Diff: 1 Type: MC Page Ref: 34-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

11) When the CPA Canada Handbook is silent on an auditing issue, which of the following is the best of other authoritative sources that the auditor could use?

- A) Assurance and Related Services Guidelines (AuG)
- B) audit firm practice manuals
- C) past practice at the client
- D) reference to audit standards partner

Answer: A

Diff: 2 Type: MC Page Ref: 34

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

12) What is the purpose of assurance standards issued by the AASB (Auditing and Assurance Standards Board) in Canada?

- A) to expose the newly established standards to as many groups as possible
- B) to provide current copies of the standards in advance of being placed in the CPA Handbook
- C) to provide supporting reference material and other resources
- D) to set standards for engagements such as reviews and compilations

Answer: D

Diff: 2 Type: MC Page Ref: 30-31

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

13) The most authoritative requirements for public accountants performing financial statement audits in Canada are the

- A) standards used by the client.
- B) industry specific standards.
- C) CPA Canada handbook requirements.
- D) assurance guidelines.

Answer: C

Diff: 2 Type: MC Page Ref: 34-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

14) When conducting an audit, the auditor should look at Canadian Auditing Standards as

- A) minimum standards of performance.
- B) normal standards of performance.
- C) ultimate standards of performance.
- D) practical standards of performance.

Answer: A

Diff: 2 Type: MC Page Ref: 34-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

15) A key difference between the PCAOB in the U.S. and the CPAB in Canada is that

- A) the CPAB is involved in the development of auditing standards.
- B) the PCAOB is involved in the development of auditing standards.
- C) the PCAOB conducts practice inspections of public company auditors.
- D) the CPAB conducts practice inspections of public company auditors.

Answer: B

Diff: 2 Type: MC Page Ref: 31-32

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

16) Securities regulations in Canada are the responsibility of

- A) a national securities commission.
- B) provincial securities commissions.
- C) the professional accounting organizations.
- D) office of the Auditor General of Canada.

Answer: B

Diff: 1 Type: MC Page Ref: 32-33

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

17) The *Sarbanes-Oxley Act* of 2002 made it a felony to

- A) destroy or create documents to impede a federal investigation.
- B) have internal control weaknesses.
- C) have a significant internal control weakness.
- D) engage in transactions with related parties.

Answer: A

Diff: 2 Type: MC Page Ref: 32

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

18) CPA Canada is the professional accounting organization for Chartered Professional Accountants (CPAs) in Canada. Describe the role and responsibilities of the organization in serving its members.

Answer:

Research and Publication: CPA Canada publishes the CPA Discussion & Analysis (D&A) Magazine along with accounting and auditing research studies. CPA Canada also coordinates the CFE exam.

Continuing Education: CPA Canada provides courses, seminars, and online material to update its members on a variety of topics relating to accounting and auditing. It also has six specific specializations for its members.

Establishing Standards and Rules: CPA Canada sets accounting and auditing standards that are published by the CPA and that must be followed by public accountants.

Diff: 2 Type: ES Page Ref: 32-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

19) For each of the following situations, state which element of the profession or society encourages the public accountant to conduct himself at a high level.

- A) Marco attended a seminar on the topic of business combinations to ensure he was up to date with the new standard.
- B) Barbara referred to the standard on hedging to ensure that her client had the appropriate documentation to qualify for hedge accounting.
- C) Gretchen refused to perform the audit of her uncle's restaurant chain.
- D) Walid worked overtime all week to ensure that the file was properly documented and met the quality control requirements.
- E) Sarah took the summer off to study for the Common Final Examination (CFE) to ensure that she would pass the entrance exam to become a Chartered Professional Accountant.

Answer: A) Continuing Education

B) CPA Canada Handbook

C) Code of professional conduct

D) CPAB review and quality control

E) Professional examination

Diff: 2 Type: ES Page Ref: 32-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

20) The Canadian Auditing Standards can be divided into three categories. List these categories and provide an example of each.

Answer: Note: Two examples are provided. Others are possible.

1. General qualifications and conduct:

- the auditor complies with ethical and independence requirements
- implementation of ethical and independence requirements is monitored using control procedures

2. Examination, performance of the audit:

- the audit should be planned and performed using professional skepticism
- the audit shall be conducted using a risk-based approach

3. Reporting results:

- provide a report on the financial statements that matches the auditor's findings
- communicate findings in accordance with the CASs

Diff: 2 Type: ES Page Ref: 34-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

21) Canadian Auditing Standards (including the CPA Canada Handbook) are the authoritative standards for the conduct of financial statement audits in Canada. How would this affect the audit of a Canadian company that is owned by a Swedish company that must also report using Swedish (International) auditing standards?

Answer:

- the audit of the foreign subsidiary must be conducted using Canadian Auditing Standards
- as long as the audit complies with CAS, it may also be conducted in accordance with international GAAS
- the auditor may report that the audit was conducted using both Canadian and Swedish (International) Auditing Standards
- Canadian Auditing Standards would be the floor (or minimum standards)
- differences between the two sets of standards may need to be identified
- where there are differences between the two sets of standards, the auditor should follow Canadian reporting standards
- the CPA Canada Handbook takes precedence over the ISAs when there is a conflict

Diff: 3 Type: ES Page Ref: 30-35

Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

2.3 Define the objective of the financial statement audit

- 1) Which of the following rights is necessary for the completion of an audit?
- A) The right to obtain copies of all documentation needed to conduct the audit.
 - B) The right to advise management regarding how it should set up its records.
 - C) The right to publish information when management engages in fraud.
 - D) The right to have access to the necessary records, information, and explanations.

Answer: D

Diff: 3 Type: MC Page Ref: 35-36

Learning Obj.: 2-3 Define the objective of the financial statement audit

2.4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

- 1) The codes of professional conduct of the various accounting bodies are meant to
- A) provide a standard of conduct for all members, including those in public practice.
 - B) interpret the assurance recommendations and views of the AASB.
 - C) provide the rules underlying the audits and related service activities carried on by the accountants.
 - D) establish the norms for quality control of an audit.

Answer: A

Diff: 2 Type: MC Page Ref: 36

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

- 2) General qualifications and conduct standards indicate that performance of all aspects of auditing should be performed with due care. This means that the auditor must fulfill his/her duties
- A) in accordance with the CAS.
 - B) carefully and in a timely manner.
 - C) to the satisfaction of the client.
 - D) diligently and carefully.

Answer: D

Diff: 2 Type: MC Page Ref: 36-37

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

- 3) Adequate planning and execution to reduce risk to an acceptable level is a requirement of which category of generally accepted auditing standards?
- A) general
 - B) examination
 - C) reporting
 - D) quality

Answer: B

Diff: 2 Type: MC Page Ref: 36-37

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

- 4) The first step in the financial statement audit using a risk assessment approach is to
- A) identify risks of material misstatement.
 - B) gather evidence to assess the likelihood of material misstatement.
 - C) evaluate audit evidence.
 - D) evaluate the reporting framework.

Answer: A

Diff: 3 Type: MC Page Ref: 37

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

5) The risk response phases of conducting the financial statement audit using a risk assessment approach includes

- A) conducting an independence threat analysis to evaluate independence.
- B) preparation of the final auditor's report in response to audit findings.
- C) identification of risks of material misstatement at the client.
- D) gathering evidence to assess the likelihood of material misstatement.

Answer: D

Diff: 2 Type: MC Page Ref: 37-38

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

6) During which phase(s) of the financial statement audit does the auditor "evaluate evidence" when using a risk assessment approach?

- A) the risk assessment phase
- B) the risk response phase
- C) the reporting process phase
- D) the risk assessment, risk response, and reporting phases

Answer: D

Diff: 3 Type: MC Page Ref: 37-38

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

7) Communicating the findings of the audit in accordance with CASs is a requirement of which category of generally accepted auditing standards?

- A) general
- B) examination
- C) reporting
- D) quality

Answer: C

Diff: 2 Type: MC Page Ref: 37-38

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

8) A strategic and risk-based audit approach means that the client must be assessed in the context of the business environment, including which of the following?

- A) ensuring that accounting complies with IFRS or ASPE
- B) completion of an independence threat analysis with supporting documentation
- C) corporate governance process and quality of internal controls
- D) talking to those audit committee members who are also part of management

Answer: C

Diff: 2 Type: MC Page Ref: 37-38

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

9) A PA firm is conducting an audit of a public company that has operations in both Canada and Finland. There is a conflict between ISAs (International Statements on Auditing) and CASs (Canadian Auditing Standards) for the foreign operations that will be consolidated with the Canadian operations. Which reporting standards should the PA firm follow?

- A) Finnish reporting standards
- B) Canadian reporting standards
- C) international financial reporting standards
- D) the best of Canadian or international standards

Answer: C

Diff: 3 Type: MC Page Ref: 38

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

10) During which phases of the financial statement audit does the auditor "conduct quality control" when using a risk assessment approach?

- A) the risk assessments
- B) the risk responses
- C) the reporting process
- D) risk assessment, risk response, and reporting phases

Answer: D

Diff: 2 Type: MC Page Ref: 37-38

Learning Obj.: 2-4 Use Canadian Auditing Standards to discuss the auditors' responsibilities in the financial audit process

2.5 Define audit quality, understand the attributes of audit quality, and discuss the competing pressures auditors face that threaten audit quality

1) What is one of the ways that high-profile business failures (such as Enron, WorldCom, and Nortel) have affected the auditing profession?

- A) raised the cost of hiring accounting-firm professionals
- B) resulted in a need for decreased paperwork on audits
- C) lowered the number of professionals working on an audit engagement
- D) created increased focus on standards and high-quality audits

Answer: D

Diff: 1 Type: MC Page Ref: 39

Learning Obj.: 2-5 Define audit quality, understand the attributes of audit quality, and discuss the competing pressures auditors face that threaten audit quality

2) Who do the external auditors and the internal auditors usually report to?

- A) senior management
- B) audit committee
- C) chief executive officer
- D) director of internal audit

Answer: B

Diff: 1 Type: MC Page Ref: 39-40

Learning Obj.: 2-5 Define audit quality, understand the attributes of audit quality, and discuss the competing pressures auditors face that threaten audit quality

2.6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

1) A PA firm has an organizational structure that assures the technical review of every engagement by a partner who has expertise in the client's industry. This is an example of good

A) entity-level controls.

B) adherence to professional standards.

C) business risk management.

D) quality controls.

Answer: D

Diff: 3 Type: MC Page Ref: 40

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

2) Adequate technical training and proficiency in auditing is a requirement of which category of generally accepted auditing standards?

A) general

B) examination

C) reporting

D) quality control

Answer: A

Diff: 2 Type: MC Page Ref: 40-41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

3) CAS 200 provides overall objectives of the independent auditor during the conduct of an audit in three categories: qualifications and conduct, performance of the audit, and reporting of results. How do these standards provide guidance to auditors?

A) They detail what an auditor should do during each financial statement audit.

B) They represent a framework for further discussion of detailed standards.

C) They provide specific rules about how work should be done for evidence gathering.

D) They explain how the audit report should be developed and distributed.

Answer: B

Diff: 2 Type: MC Page Ref: 40-41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

4) CAS 200 explains that as part of general qualifications and conduct, the auditor should be professionally competent. Which of the following help the auditor achieve competence?

A) using due care in the performance of all aspects of auditing

B) having an objective state of mind and independence from the client

C) having formal education and practical experience, and pursuing continuing education

D) conducting the audit using a risk-based approach and being skeptical

Answer: C

Diff: 3 Type: MC Page Ref: 40-41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

5) CAS 200 explains that as part of general qualifications and conduct, the auditor should exercise due care in the performance of all aspects of auditing. Which of the following is an illustration of due care?

- A) having an objective state of mind and independence from the client
- B) having formal education and practical experience in the conduct of auditing
- C) issuing a standard audit report using the CPA Canada Handbook specified wording
- D) considering the completeness of the working papers

Answer: D

Diff: 3 Type: MC Page Ref: 40-41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

6) CPAB's purpose is to

- A) develop auditing standards.
- B) provide training and continuing education to auditors.
- C) clarify and communicate the role of the auditor to the public.
- D) improve the public's confidence in independent auditing.

Answer: D

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

7) There are many elements of quality control at the firm level. Which element does the statement "an organizational culture that emphasizes that quality should be present for audit and review engagements" fall under?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement performance

Answer: A

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

8) There are many elements of quality control at the firm level. Which element does the statement "quality control procedures should be developed, documented, implemented, and communicated" fall under?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement quality control review

Answer: A

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

9) There are many elements of quality control at the firm level. Which element does the statement "management within a firm should ensure that qualified personnel monitor and address non-compliance with quality-control procedures" fall under?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement quality control review

Answer: A

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

10) There are many elements of quality control at the firm level. Which element does the statement "a firm should establish a formal code of conduct that includes procedures for individuals to disclose differences of opinion and any inappropriate conduct" fall under?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement quality control review

Answer: A

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

11) Farah is currently auditing Software Synx, a public company. After a long day of work, Farah goes for a drink with her friend John who mentions that he owns shares of Software Synx. Farah indicates that John should hold on to his shares as they will go up next week when the financial statements are released and show an increase of 12% for revenues. Which element of quality control is compromised by Farah?

- A) general ethical requirements
- B) independence
- C) general human resource policies
- D) engagement performance

Answer: A

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

12) Gary West is a sole practitioner. He has conducted the audit of Reggie's Farm for the past 12 years. In the current year, Reggie's Farm expanded by acquiring two other farms, installed a new accounting system, and also started to export to the United States. Gary accepted the audit of Reggie's Farm for the upcoming year even though he has no experience with exports to the U.S. or companies the size of Reggie's Farm. Which element of quality control is compromised for Gary's firm?

- A) independence
- B) client acceptance or continuance
- C) extent of professional development
- D) general ethical requirements

Answer: B

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

13) Dimitri works at a large public accounting firm. Dimitri referred one of his friends for a junior auditor position. Dimitri's friend was hired despite the fact that he had a criminal record. The partner at the firm did not perform a background check on Dimitri's friend since he was recommended by an employee. Which element of quality control has been compromised?

- A) general ethical requirements
- B) independence
- C) general human resource policies
- D) engagement performance

Answer: C

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

14) There are many elements of quality control at the firm level. Which element does "adequate hiring policies (and documentation of their implementation) that ensure competence and integrity of personnel" relate to?

- A) leadership and responsibilities within the firm
- B) independence
- C) general human resource policies
- D) extent of professional development

Answer: C

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

15) There are many elements of quality control at the firm level. Which element does "work assignments that match employee competence and performance evaluations related to audit quality" relate to?

- A) leadership and responsibilities within the firm
- B) independence
- C) general human resource policies
- D) extent of professional development

Answer: C

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

16) There are many elements of quality control at the firm level. Which element does "employees should be adequately trained in the skills needed to conduct audits and reviews" relate to?

- A) leadership and responsibilities within the firm
- B) independence
- C) general human resource policies
- D) extent of professional development

Answer: D

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

17) Jessica is a summer junior at Branes & Castle, a PA firm. Jessica has only completed three accounting courses in university and has not yet taken her auditing class. A team of auditors from Branes & Castle are starting an audit and Jessica was sent to help them. Jessica

- A) can perform work for the audit engagement as long as she is supervised and proper review of her work is performed.
- B) should not perform any work pertaining to the audit engagement since she doesn't have sufficient knowledge.
- C) should be limited to assisting the audit team with support functions such as photocopying and file assembly.
- D) can perform work for the audit engagement on cycles where risk was assessed as low.

Answer: A

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

18) There are many elements of quality control at the firm level. Which element does "adequate processes and procedures should be in place to ensure that the audit or review is conducted in accordance with GAAS, that quality control procedures are followed for each engagement, and that the audit is appropriately documented" relate to?

- A) leadership and responsibilities within the firm
- B) general human resource policies
- C) extent of professional development
- D) engagement performance

Answer: D

Diff: 2 Type: MC Page Ref: 41

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

19) There are many elements of quality control at the firm level. Which element does "policies in place should include use of second or independent partner review, technical review, documentation, and compliance with quality control processes" relate to?

- A) engagement performance
- B) engagement quality control review
- C) documentation
- D) general human resource policies

Answer: B

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Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

20) There are many elements of quality control at the firm level. Which element does "processes should exist for following up internal and external complaints" relate to?

- A) engagement performance
- B) engagement quality control review
- C) documentation
- D) general human resource policies

Answer: B

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Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

21) For a CPA working as a sole practitioner or working in a small public accounting office, the provincial practice inspectors will likely come to review audit files

- A) every three years.
- B) every five years.
- C) every year.
- D) never: files are not reviewed in person.

Answer: A

Diff: 1 Type: MC Page Ref: 42

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

22) How do practice inspections affect the ability of a PA firm to have articling students work at the firm? Practice inspectors

- A) only permit students to work there if the quality controls are good.
- B) review the ability of the office to provide sufficient, appropriate hours.
- C) require that students work only on audit engagements, not reviews.
- D) consider only work completed by qualified PAs, not students.

Answer: B

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Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

23) Which of the following is a typical consequence to a PA or PA firm if practice inspectors find any files or quality control procedures to be unsatisfactory? The PA

- A) will lose the right immediately to conduct audit engagements.
- B) will no longer be allowed to sign audit reports for a period of time (such as a year).
- C) may be required to revise processes or attend training courses.
- D) will be required to rewrite the professional qualification examinations.

Answer: C

Diff: 2 Type: MC Page Ref: 42

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

24) Stafford & Sandiford is a public accounting firm with 30 clients who are reporting issuers. Stafford & Sandiford can expect to be inspected by the CPAB

- A) once per year.
- B) once every 3 years.
- C) once every 5 years.
- D) randomly.

Answer: B

Diff: 1 Type: MC Page Ref: 42

Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality

25) Larger audits may have established procedures that utilize an audit committee whenever there is a dispute between management and the auditors. What is the purpose of such procedures?

- A) to ensure that the auditor understands management's point of view
- B) to improve the competence of the financial statement auditors
- C) to facilitate the auditors' independence from management
- D) to help make sure the audit is conducted following GAAS

Answer: C

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Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession that help achieve audit quality