1. The risk associated with a company's survival and profitability is referred to as:
   A) Business Risk.
   B) Information Risk.
   C) Detection Risk.
   D) Control Risk.

2. The organization charged with protecting investors and the public by requiring full disclosure of
   financial information by companies offering securities to the public is the:
   A) Auditing Standards Board.
   B) Financial Accounting Standards Board.
   C) Government Accounting Standards Boards.
   D) Securities and Exchange Commission.

3. The risk that a company will not be able to meet its obligations when they become due is referred
   to as:
   A) Information risk.
   B) Inherent risk.
   C) Relative risk.
   D) Business risk.

4. Which of the following attributes most clearly differentiates a CPA who audits management's
   financial statements as contrasted to management?
   A) Integrity.
   B) Competence.
   C) Independence.
   D) Keeping informed on current professional developments.

5. The review of a company's financial statements by a CPA firm:
   A) Is substantially less in scope of procedures than an audit.
   B) Requires detailed analysis of the major accounts.
   C) Is of similar scope as an audit and adds similar credibility to the statements.
   D) Culminates in issuance of a report expressing the CPA's opinion as to the fairness of the
      statements.
6. Passage of the Sarbanes-Oxley Act led to the establishment of the:
A) Auditing Standards Board.
B) Accounting Enforcement Releases Board.
C) Public Company Accounting Oversight Board.
D) Securities and Exchange Commission.

7. Audits of financial statements are designed to obtain reasonable assurance of detecting misstatement due to:
A) Errors: Yes; Fraudulent financial reporting: Yes; Misappropriation of assets: Yes
B) Errors: Yes; Fraudulent financial reporting: Yes; Misappropriation of assets: No
C) Errors: Yes; Fraudulent financial reporting: No; Misappropriation of assets: No
D) Errors: Yes; Fraudulent financial reporting: No; Misappropriation of assets: Yes

8. Which of the following is not a type of auditors' opinion?
A) Adverse.
B) Ordinary.
C) Qualified.
D) Unqualified.

9. In which paragraph of an audit report are auditing standards generally accepted in the United States explicitly mentioned?
A) Introductory: Yes; Scope: No; Opinion: No
B) Introductory: No; Scope: Yes; Opinion: No
C) Introductory: No; Scope: Yes; Opinion: Yes
D) Introductory: Yes; Scope: Yes; Opinion: Yes

10. The expression "accounting principles generally accepted in the United States of America":
A) Appears in both the scope paragraph and the opinion paragraph of the auditors' report.
B) Appears in the introductory paragraph of the auditors' report.
C) Appears in the opinion paragraph of the auditors' report.
D) Does not appear in the auditors' report.
11. The generally accepted auditing standards adopted by the AICPA include a requirement that the CPAs:
A) Assume responsibility for any losses to the client from fraud which existed during the audit but was not detected by the auditors.
B) Follow accounting principles adopted by the SEC.
C) Not accept as audit clients companies which compete directly with one another.
D) Exercise due professional care in the performance of the examination and the preparation of the report.

12. Which of the following is not one of the five elements of quality control?
A) Engagement performance.
B) Personnel management.
C) Review.
D) Monitoring.

13. ABC Company is audited by the Phoenix office of Willingham CPAs. Which of the following individuals would be least likely to be considered a “covered member” by the independence standard?
A) Staff assistant on the audit.
B) An audit partner in the Eloi office.
C) A tax partner in Phoenix who performs no attest services for ABC Company or for any other clients.
D) The partner in charge of Willingham CPAs (she does no work on the ABC Company Audit).

14. Auditors are periodically punished for holding an investment in a client. This violates which ethical rule?
A) Integrity.
B) Independence.
C) Non compliance with GAAP.
D) Confidentiality.

15. Which of the following family relationships is most likely to impair a CPA's independence with respect to a particular audit client on which the CPA works as a “covered member”?
A) A close relative has a material investment in that client of which the CPA is not aware.
B) A cousin has an immaterial investment in the client of which the CPA is aware.
C) The CPA's father is president of the audit client.
D) The CPA's spouse participates in a savings plan sponsored by the client.
16. The provisions of the Sarbanes-Oxley Act of 2002 are most likely to allow which of the following non-audit services for audit clients?
A) Appraisal or valuation services (e.g., pension, post-employment benefit liabilities).
B) Financial information systems design and implementation.
C) Internal audit outsourcing.
D) Tax consulting.

17. Which of the following forms of advertising would be considered to be a violation of Rule 502 of the AICPA Code of Professional Conduct?
A) Advertising including the types of services offered and the standard fees for the services.
B) Advertising including the experience of the firm's professional staff.
C) Advertising including an indication that the firm has a close relationship with several tax court judges.
D) Advertising including the percentage of the firm's staff that have CPA certificates.

18. Independence is required of a CPA performing:
A) Audits, but not any other professional services.
B) All attestation services, but not other professional services.
C) All attestation and tax services, but not other professional services.
D) All professional services.

19. Which of the following procedures is not a required planning procedure for a new client previously audited by another auditor?
A) Attempting communication with the predecessor auditor.
B) Performing analytical procedures.
C) Obtaining an understanding of internal control to plan audit procedures.
D) Obtaining a written "engagement letter" from the client.

20. Which of the following is correct concerning a "fraud risk factor"?
A) It may affect the auditor's assessment of fraud risk.
B) It requires modification of planned audit procedures.
C) It is also a material weakness in internal control.
D) If it involves senior management, it is likely to result in resignation of the auditor.

21. When performing a financial statement audit, auditors are required to explicitly assess the risk of material misstatement due to:
A) Fraud.
B) Errors.
C) Illegal Acts.
D) Business risk.
22. The inspection of a vendor's invoice by the auditors is:
   A) Direct evidence about occurrence of a transaction.
   B) Physical evidence about occurrence of a transaction.
   C) Documentary evidence about occurrence of a transaction.
   D) Part of the client's accounting system.

23. During financial statement audits, auditors seek to restrict which type of risk?
   A) Control risk.
   B) Detection risk.
   C) Inherent risk.
   D) Account risk.

24. Which of the following types of employees must be independent of an audit client?
   A) Staff assistants assigned to the engagement.
   B) Senior auditors assigned to the office that performs the audit.
   C) Manages employees assigned to an office that does not participate in the engagement.
   D) All firm professionals, regardless of their position.

25. Which of the following is generally true about the sufficiency of audit evidence?
   A) The amount of evidence that is sufficient varies inversely with the competence of the evidence.
   B) The amount of evidence concerning a particular account varies inversely with the materiality of the account.
   C) The amount of evidence concerning a particular account varies inversely with the inherent risk of the account.
   D) When evidence is competent with respect to an account it is also sufficient.

OKAY, SWITCH TO YOUR BLUE-BOOK FOR THE REST OF THE QUESTIONS PLEASE.

BREVITY WILL INCREASE THE LIKELIHOOD OF GETTING POINTS. THIS IS NOT A COURSE IN ENGLISH COMPOSITION. USE OF BULLITS ETC. IS PERFECTLY ACCEPTABLE.

26. Analytical procedures are substantive tests that may be used to provide evidence about specific accounts and classes of transactions.
   a. Describe three major types of comparisons the auditor might make in performing analytical procedures.
   b. At what stages of the audit are analytical procedures performed and what purpose do they serve at each stage? When listing your answer for each stage, state whether analytics are required as a component of that stage of the audit.
27. I. What responsibility does an auditor have with respect to fraud?

II. Assume that there was an audit completed without consideration of fraud by the auditor, and as it turns out, the auditors normal auditing procedures detected the only material fraud which occurred. Was this audit completed in accordance with GAAS? Briefly explain why or why not.

III. An audit reasonably considered fraud risk factors. There was a fraud which occurred which was not material to the overall financial statement presentation and was NOT detected by the auditors. Was this audit completed in accordance with GAAS? Briefly support your answer.

28. Many people confuse the responsibilities of the independent auditors and the client's management with respect to audited financial statements.
   a. Describe management's responsibility regarding audited financial statements.
   b. Describe the independent auditors' responsibility regarding audited financial statements.
   c. Evaluate the following statement: "If the auditors disagree with management regarding an accounting principle used in the financial statements the auditors should express their views in the notes to the financial statements."

29. I. Briefly describe the difference between Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS).

   II. Should an auditor have technical proficiency in GAAP, GAAS, or both. Briefly explain why.

   III. What is the name of the entity which established GAAS for non-public companies and the name of the entity which is responsible for the auditing standards governing audits of public companies.

   IV. Briefly describe the oversight/ review requirements for audits of non-public companies vs. audits of public companies.
Answer Key

1. A
2. D
3. D
4. C
5. A
6. C
7. A
8. B
9. B
10. C
11. D
12. C
13. B
14. B
15. C
16. D
17. C
18. B
19. D
20. A
21. A
22. C
23. B
24. A
25. A
26. a. Comparisons made in performing analytical procedures include (only three required):
   • Comparisons with prior years' data.
   • Comparisons with budgets and forecasts.
   • Comparisons with industry statistics.
   • Comparisons with nonfinancial data.
   • Comparisons of predictable relationships based on past history.

   b. Analytical procedures may be performed:
   1. During planning to identify items that require more audit attention. REQUIRED
   2. Throughout the audit as a substantive test of accounts or classes of transactions.
   3. At the conclusion of the audit for an overall review of the audited financial statements. REQUIRED
27. I. Auditor should detect a material misstatement whether caused by error or fraud.
   
   The auditor is responsible for consideration of fraud during the planning of the engagement as well as its performance.

II. This audit was NOT performed in accordance with GAAS as GAAS requires consideration of fraud - not simply its detection in the event of occurrence.

III. The audit was conducted in accordance with GAAS. The error was not material and the auditor performed sufficient fraud risk considerations.

28. (a) Management has primary responsibility for the fairness of the financial statements.
    (b) The auditors are responsible for performing an independent audit of the financial statements and issuing a report on them in accordance with generally accepted auditing standards.
    (c) The statement if false. The notes to the financial statements should contain only representations of management. The auditors should express their reservations in their report.

29. I. GAAP governs how to account for activity. GAAS governs how to perform an audit in accordance with GAAS.

II. An auditor is REQUIRED to possess adequate technical training. They must therefore understand GAAP to be able to understand the correct accounting and GAAS (BOTH) to be able to perform a GAAS audit.

III. Non-Public GAAP = AICPA - Public = PCAOB

IV. Audits of non-public companies are subject to peer review (self regulated) while audits of public companies are subject to oversight and review of the PCAOB.