132 winter 2008 midterm #1
Version #1---WRITE THIS ON YOUR SCANNERON!!!!

Student: ____________________________________________

Complete multiple choice questions #1-25 on green scantron and the rest in the space provided.

1. With respect to auditing management's fair value estimates, which is the most compelling source of information to the auditor when available:
   A. Independant estimation by the auditor using data available as of the balance sheet date
   B. 976-pysch
   C. Subsequent events and transactions bearing upon the estimate.
   D. Recomputation

2. The most stringent independence standards apply to:
   A. Employees
   B. Covered members
   C. Non-attest services
   D. Close relatives

3. The components of the risk of misstatement are:

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   A. Choice C
   B. Choice D
   C. Choice B
   D. Choice A

4. Which of the following is not a type of auditors' opinion?
   A. Adverse
   B. Ordinary
   C. Unqualified
   D. Qualified
5. The risk associated with a company's survival and profitability is referred to as:
A. Control Risk
B. Information Risk
C. Detection Risk
D. Business Risk

6. 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. Business risk
D. Relative risk

7. An engagement in which a CPA firm arranges for a critical review of its practices by another CPA firm is referred to as a(n):
A. Peer Review Engagement
B. Quality Control Engagement
C. Quality Assurance Engagement
D. Attestation Engagement

8. Assuming a public company governed by SOX, then which of the following statements regarding performance of the tax work by the same firm performing the audit is true:
A. It is allowable subject to approval by the company's board of directors.
B. There are no specific rules related to this issue.
C. It is strictly prohibited as an independence violation.
D. It is allowable only if the tax fees are immaterial relative to the audit fees.

9. A summary of findings rather than assurance is most likely to be included in a(n):
A. Review report
B. Examination report
C. Compilation report
D. Agreed-upon procedures report

10. When performing a financial statement audit, auditors are required to explicitly assess the risk of material misstatement due to:
A. Fraud
B. Illegal Acts
C. Misappropriation
D. Business risk
11. From the options below, select the form of audit evidence which is the least "reliable"
A. Third party confirmations
B. Client representations
C. Physical evidence
D. Information provided by the accounting information system

12. If you are performing an audit and are interested in locating a specific transaction, which report would most likely include presentation of sufficient detail for you to locate that transaction:
A. Trial balance
B. General ledger
C. Sub-ledger
D. Phone ledger

13. Analytical procedures are required at the planning stage of all audits and as:
A. A part of the final overall review
B. Tests of internal control
C. Computer generated procedures
D. Substantive procedures

14. Audits of financial statements are designed to obtain reasonable assurance of detecting material misstatement due to:

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15. Which of the following is not considered to be an analytical procedure?
A. Comparisons of financial statement amounts with source documents
B. Comparisons of financial statement amounts with budgeted amounts
C. Comparisons of financial statement amounts with nonfinancial data
D. Comparisons of financial statement amounts with comparable prior year amounts
16. Which of the following statements is true with respect to the PCAOB and SEC's concept of independence when an auditor both prepares financial statements and audits those financial statements for a client?
A. The auditor is independent if he or she is able to maintain a level of professional detachment
B. The auditor cannot audit the financial statements since a lack of integrity exists
C. The auditor can audit the financial statements only if the audit process does not culminate in the expression of an opinion on the financial statements
D. The auditor is not independent

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

18. A covered member relative to XYZ, Inc. includes:
A. The father of a staff member who works directly on the audit of XYZ, Inc.
B. A staff member of an office other than the office performing the audit of XYZ, Inc.
C. A partner in the same office as the office performing the audit of XYZ, Inc.
D. The brother of a staff working on an audit of XYZ, Inc.

19. Once registered with the PCAOB, a "registered" public accounting firm becomes subject to periodic reviews by the PCAOB.
A. True
B. False

20. Which of the following is least likely to impair a CPA firm's independence with respect to a nonpublic audit client in the Oklahoma City office of a national CPA firm?
A. A partner in the Oklahoma City office owns an immaterial amount of stock in the client
B. A partner in the Oklahoma City office, who does not work on the audit, previously served as controller for the audit client
C. A partner in the Chicago office is also the vice president of finance for the audit client
D. A partner in the Jersey City office owns 7% of the client's stock

21. A "close relative" of yours may not:
A. Invest in a mutual fund which holds an indirect interest in an audit client of yours
B. Work at an audit client of yours in a key position
C. Get their car insurance from a company which is an audit client of yours
D. Hold any direct investment in an audit client of yours
22. Public companies are required to have their internal controls audited under this requirement:
   A. Internal Revenue Code section 401(k)
   B. Sarbanes Oxley Act Section 403(a)
   C. ERISA Act of 1986
   D. Sarbanes Oxley Act Section 404

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

24. In which of the following may a public accounting firm perform services under a contingent fee arrangement?
   A. If the public accounting firm provides no attest services, they may receive contingent fees for the preparation of an original or amended tax return.
   B. If the public accounting firm provides no attest services and the contingent fee is not for the preparation of an original or amended tax return.
   C. In connection with an audit, only if the contingent fee is contingent upon the issuance of an unqualified opinion.
   D. If the public accounting firm provides attest services and that engagement is already complete and the report issued.

25. Audit workpapers are to be treated with "confidentiality". Which of the following statements is not true with respect to this rule:
   A. Audit workpapers are "Privileged"
   B. Even at a client location, audit workpapers should be guarded
   C. Audit workpapers may be provided to the client and successor auditors
   D. Audit workpapers are the property of the auditor

**ANSWER THE REMAINING QUESTIONS IN THE SPACE PROVIDED**

26. Public accounting firms which wish to perform audits of public companies must first register with this entity: (NOTE you may abbreviate)
27. I. Briefly describe what an "attestation" engagement is.

II. List each type of attestation engagement as well as a brief description of each.

III. State which of the attestation engagements requires the report distribution to be limited, and why?

IV. Which attestation engagement provides the highest level of assurance?

28. Briefly describe what distinguishes the following types of audit opinions:

- Unqualified

- Qualified

- Disclaimed

- Adverse
29. Briefly describe the responsibility of an auditor with respect to fraud. In your response, describe a scenario in which fraud may exist undetected by an auditor and the audit still be compliant with GAAS.

30. Standards of fieldwork require that an engagement be: (hint- there are three of them)

31. An attestation engagement provides ________________. (hint: one word)

32. An error may exist in financial statements prepared by a company due to fraud as well as a variety of other causes. List at least two other potential causes.
33. What should the auditor do under GAAS to rely upon the work of a specialist?

34. GAAS has 10 standards which fall into three categories. Under the heading below for the General Standards, list the general standards. Do the same for the Standards of Fieldwork. Finally, just state what the last category is (you do not need to list the standards which fall under that category.)

GENERAL STANDARDS:

STANDARDS OF FIELDWORK:

LAST CATEGORY: __________________________.
35. Briefly describe/define (1) inherent risk (2) control risk (3) detection risk (4) overall audit risk and (5) Risk of Material Misstatement. For each item, please note if the risk is: - a result of the clients business and accounting rules which apply to them - mitigated by the clients policies and procedures - mitigated by the audit procedures - a combination of the above. (if a combination, list the combination)

**INHERENT RISK**

**CONTROL RISK**

**DETECTION RISK**

**OVERALL AUDIT RISK**

**RISK OF MATERIAL MISSTATEMENT**
Management makes assertions in the financial statements and it is the auditor's responsibility to audit these assertions. Please list the "management assertions" (hint: 6 of them).

Which of these assertions generally garners a greater amount of attention from the auditor, and why?

With respect to liabilities, which is generally the most important, and most difficult to test by an auditor?
37. What are the three standard paragraphs in an unqualified opinion and key elements of each?
132 winter 2008 midterm #1 Key
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1. C
2. B
3. C
4. B
5. D
6. C
7. A
8. A
9. D
10. A
11. B
12. B
13. A
14. B
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27. I. Attestation engagements provide assurance as to the compliance with some "suitable criteria" (such as GAAP). II. Examination/Audit: Provides an OPINION as to the material accuracy of financial statements in accordance with GAAP (the suitable criteria). It is the most assurance offered of all the forms of attestation and involves compliance with generally accepted auditing standards. Review: Like an audit, the suitable criteria is conformity of financial statements to GAAP. Provides a REPORT of NEGATIVE ASSURANCE. No opinion is rendered and is substantially less in scope than an audit. Agreed Upon Procedures: Suitable criteria are defined by the "agreed upon procedures" to be performed. There is no opinion, only a "summary of findings" III. Agreed upon procedures... because the "suitable criteria" is only known by those who have been involved in the determination of the procedures to be performed. IV. An Audit or Examination

28. UNQUALIFIED: The auditor renders an opinion that the financial statements are materially in accordance with GAAP QUALIFIED: Auditor expresses an opinion that "except for" a departure which is clearly described, including its impact, the financial statements are materially in accordance with GAAP DISCLAIMER: There has been a scope limitation preventing the auditor from being able to perform an audit in accordance with GAAS, and the auditor disclaims their opinion relative to the impacts from that restriction. ADVERSE: No opinion is rendered as there are severe departures from GAAP.

29. Auditor is responsible for: (a) Understanding fraud risks (b) planning/executing the audit based on the fraud risks identified. (c) Identification of all material errors, whether caused by error or fraud.

If a fraud error exists and is (1) immaterial and (2) not related to an identifiable fraud risk factor, the audit would not necessarily be non-compliant with GAAS.

30. Planned

Internal control considered

Sufficient Competent Evidential matter obtained.

31. ASSURANCE

32. - unintentional bias - Lack of specific GAAP knowledge - mistakes

33. 1) Satisfy themselves with the professional qualifications of the specialist
2) Read and understand the report including the methodologies employed by the specialist
3) Test the data used by the specialist to ensure it is appropriate and consistent with the auditors understanding.

34. GENERAL STANDARDS Adequate technical training and proficiency as an auditor. Independence in mental attitude is to be maintained by the auditor. Due professional care is to be exercised. STANDARDS OF FIELDWORK Work is to be adequately planned and properly supervised Sufficient understanding of internal control is to be obtained Sufficient competent evidential matter is to be obtained to afford a reasonable basis for the opinion

STANDARDS OF REPORTING

35. Inherent risk is the unmitigated risk at a company. Including such risks as: -complexity of the business - business environment - complexity of applicable GAAP - degree of judgment involved in transactions - economic/political and other influences IMPACTED BY: result of the clients business and accounting rules which apply to them

Control Risk is the risk that inherent risks would not be detected or prevented by a company's internal controls. IMPACTED BY: clients policies and procedures

Detection risk is the risk that the auditor would fail to detect a material misstatement to the financial statements. IMPACTED BY: THE AUDIT procedures.

Overall audit risk is the combination of IR CR and DR above-- it is the overall risk that the financial statements will include a material misstatement. IMPACTED BY: All of them.

Risk of Material Misstatement (or RMM) is the likelihood of a material error being included in the financial statements prepared by management, but before audit procedures and is the combination of Inherent Risk and Control Risk. IMPACTED BY: Inherent risks and control risks of the client (result of the clients business and accounting rules which apply to them AND the policies and procedures at the company.)
36. Cutoff Existence Completeness Rights & Obligations Valuation Presentation and disclosure  

**Valuation** generally receives the most attention as it involves the most subjectivity, and consequently carries a high degree of inherent risk. Liabilities: **Completeness** is most crucial and most difficult to test.

37. INTRODUCTORY:
States what is being audited,
that the financial statements are the responsibility of management
That the auditor is responsible for their opinion.

**SCOPE:**
States audit in accordance with GAAS (or PCAOB standards if public co)
Audit has been planned and performed to provide **reasonable** assurance
Free of **material** misstatement
That procedures are performed on a **test** basis

**OPINION:**
Expressed the **opinion** that the financial statements are in accordance with **gaap**.

1. If you are performing an audit and are interested in locating a specific transaction, which report would most likely include presentation of sufficient detail for you to locate that transaction:
   A. Sub-ledger
   B. Phone ledger
   C. General ledger
   D. Trial balance

2. During financial statement audits, auditors seek to restrict which type of risk?
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3. Audits of financial statements are designed to obtain reasonable assurance of detecting material misstatement due to:
   A. Choice A
   B. Choice C
   C. Choice D
   D. Choice B

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A. Choice A  
B. Choice D  
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17. Once registered with the PCAOB, a "registered" public accounting firm becomes subject to periodic reviews by the PCAOB.

A. False  
B. True

18. Which of the following is not a type of auditors' opinion?

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D. A partner in the same office as the office performing the audit of XYZ, Inc.

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A. Sarbanes Oxley Act Section 403(a)
B. ERISA Act of 1986
C. Sarbanes Oxley Act Section 404
D. Internal Revenue Code section 401(k)

PLEASE COMPLETE THE REMAINING QUESTIONS IN THE SPACE PROVIDED!!

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**INHERENT RISK**

**CONTROL RISK**

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15. C
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18. D
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25. C
26. PCAOB
27. Cutoff Existence Completeness Rights & Obligations Valuation Presentation and disclosure Valuation generally receives the most attention as it involves the most subjectivity, and consequently carries a high degree of inherent risk. Liabilities: Completeness is most crucial and most difficult to test.
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30. UNQUALIFIED: The auditor renders an opinion that the financial statements are materially in accordance with GAAP  QUALIFIED: Auditor expresses and opinion that "except for" a departure which is clearly described, including its impact, the financial statements are materially in accordance with GAAP  DISCLAIMER: There has been a scope limitation preventing the auditor from being able to perform an audit in accordance with GAAS, and the auditor disclaims their opinion relative to the impacts from that restriction.  ADVERSE: No opinion is rendered as there are severe departures from GAAP.

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STANDARDS OF REPORTING

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