1. As one of the year-end audit procedures, the auditor instructed the client's personnel to prepare a confirmation request for a bank account that had been closed during the year. After the client's treasurer has signed the request, it was mailed by the assistant treasurer. What is the major flaw in this audit procedure?
A. The CPA did not sign the confirmation request before it was mailed
B. The request was mailed by the assistant treasurer
C. The confirmation request was signed by the treasurer
D. Sending the request was meaningless because the account was closed before the year end

2. Individuals who commit fraud are ordinarily able to rationalize the act and also have an:

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

3. When the auditor identifies a company risk that does not translate to a financial reporting risk, the auditor would most likely:
A. Have a long lunch with the engagement manager.
B. Halt further pursuit of that risk factor.
C. Understand controls designed to mitigate that risk factor.
D. Understand and test controls designed to mitigate that risk factor.
4. Which of the following is correct concerning requirements about auditor communications about fraud?
A. The auditor has no responsibility to disclose fraud outside the entity under any circumstances
B. Fraud that involves senior management should be reported directly to the audit committee regardless of the amount involved
C. Fraud with a material effect on the financial statements should ordinarily be disclosed by the auditor through use of an "emphasis of a matter" paragraph added to the audit report
D. All fraud with a material effect on the financial statements should be reported directly by the auditor to the Securities and Exchange Commission

5. Jones embezzled $10,000 from his company's account in Bank A. At year-end he hid the shortage by making a deposit on December 31 in Bank A, drawn on Bank B. He has not recorded the transaction on the books. This is an example of:
A. Effective cash management
B. Kiting
C. Lapping
D. Related party transactions

6. Tracing recorded sales transactions in the sales journal to the shipping documents (bills of lading) provides evidence about the:
A. Billing of all sales transactions
B. Completeness of recording of sales transactions
C. Occurrence of sales transactions
D. Presentation of payables

7. Who is responsible for approving the appointment of the external auditors at a public company?
A. Management
B. The Audit Committee of the Board of Directors
C. The PCAOB
D. The CFO

8. Which of the following procedures is not performed as a part of planning an audit engagement?
A. Designing an audit program
B. Confirmation of all major accounts
C. Reviewing the working papers of the prior year
D. Performing analytical procedures
9. Even a well designed internal control system may have limitations, which of the following items is NOT a potential limitation of internal controls.
A. Management override
B. Collusion
C. New threats due to Information technology
D. Internal audit

10. Which of the following is not a control that generally is established over cash transactions?
A. Separating cash handling from recordkeeping
B. Depositing each day's receipts intact
C. Obtaining a receipt for every disbursement
D. Centralizing the receipt of cash

11. In October, three months before year-end, the bookkeeper erroneously recorded the receipt of a one year bank loan with a debit to cash and a credit to miscellaneous revenue. Select the most effective method for detecting this type of error
A. Prepare a bank transfer schedule as of year-end
B. Prepare a bank reconciliation as of year-end
C. Send a bank confirmation as of year-end
D. Foot the cash receipts journal for October

12. To best test existence, an auditor would sample from the:
A. General Ledger to source documents
B. General Ledger to the financial statements
C. Source documents to the general ledger
D. Source documents to journals

13. Jones embezzled $10,000 from his company's account in Bank A. At year-end he hid the shortage by making a deposit on December 31 in Bank A, drawn on Bank B. He has not recorded the transaction on the books. Which of the following is most likely to be effective in detecting this fraud?
A. Bank confirmation
B. Receivable confirmation
C. Bank transfer schedule prepared using only the cash receipts and cash disbursements journals
D. Comparison of bank cutoff statement to the cash receipts and disbursements records
14. When a company has changed auditors, according to the Professional Standards:
A. The predecessor must respond fully to all inquiries made by the successor auditor
B. The successor may choose not to attempt any communication with the predecessor auditor
C. The successor must discuss with the predecessor matters bearing on the engagement prior to accepting the engagement
D. The successor auditor has the responsibility to initiate contact with the predecessor auditor to ask about the client before the engagement is accepted; the predecessor has no responsibility to initiate this contact, even when aware of matters bearing on the integrity of management

15. Which audit technique listed below is required during audit planning?
A. Third party confirmations
B. Tests of operating effectiveness
C. Analytical procedures
D. Observation

16. To gather evidence regarding the balance per bank in a bank reconciliation, an auditor could examine all of the following except
A. Cutoff bank statement
B. General ledger
C. Bank confirmation
D. Year-end bank statement

17. While assessing the risks of material misstatement auditors identify risks, relate risk to what could go wrong, consider the magnitude of risks and
A. Assess the risk of misstatements due to illegal acts
B. Consider the complexity of the transactions involved
C. Determine materiality levels
D. Consider the likelihood that the risks could result in material misstatements

18. Which of the following is NOT one of the four broad categories of control activities.
A. Performance reviews
B. Collusion
C. Segregation of duties
D. Information Processing
19. Which of the following statements is most accurate regarding Board of Director independence for a public company?
A. All members of the Board must be independent.
B. What is a Board of Directors?
C. There is no requirement that the Board have any independent members.
D. While there is no requirement that the Board have any independent members, audit committee requirements result in the need for independent board members.

20. In which circumstance below would a judgmental sample be more appropriate than a statistical sample?
A. Tests of a control which is applied several times in a given day, every day.
B. Population is comprised of thousands of items, which are similar and individually insignificant.
C. Population is comprised of items with low inherent risk and transactions are routine.
D. Population is comprised of few transactions, which are individually significant and carry a high inherent risk.

21. Kiting would *least* likely be detected by:
A. Comparing customer remittance advices with recorded disbursements in the cash disbursements journal
B. Preparing a four-column bank reconciliation for all major cash accounts
C. Analyzing details of large cash deposits around year end
D. Preparing a schedule of interbank transfers by using the client's records and bank statements around year end

22. Which of the following statements is true regarding statistical sampling?
A. Statistical sampling may be applied to test both qualitative (TOE’s) as well as quantitative (substantive) characteristics.
B. Statistical sampling may only be applied in connection with tests of controls.
C. Statistical sampling may not be applied at a company with weak internal controls.
D. Statistical sampling may only be applied in connection with substantive procedures.

23. You just established an internal control risk at less than high, as a direct result of this assessment, you must:
A. Test the design and operating effectiveness of internal controls.
B. Test the design of internal controls.
C. Obtain an understanding of the internal controls.
D. Test the operating effectiveness of internal controls.
24. Which of the following factors most likely would lead a CPA to conclude that a potential audit engagement should **not** be accepted?

A. It is unlikely that sufficient evidence is available to support an opinion on the financial statements
B. Internal control activities requiring the segregation of duties are subject to management override
C. Management continues to employ an inefficient system of information technology to record financial transactions
D. There are significant related party transactions that management claims occurred in the ordinary course of business

25. Audits of financial statements are designed to obtain reasonable assurance of detecting material misstatements due to:

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A. Choice A
B. Choice D
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26. (Fill in the blank in space provided) Upon completion of planning, the auditor summarizes their planned audit procedures in the .

________________________________________

27. **FILL IN THE BLANK**) When evaluating materiality the auditor considers both two factors, what are they?

________________________________________

28. List the control environment factors to be considered by the auditors (7 of them)
29. In the space provided, please briefly describe the most critical reason why the auditor should have a discussion with the predecessor auditors and review their workpapers.
1. B
2. B
3. B
4. B
5. B
6. C
7. B
8. B
9. D
10. C
11. C
12. A
13. D
14. D
15. C
16. B
17. D
18. B
19. D
20. D
21. A
22. A
23. A
24. A
25. A
26. Audit Program Guide (or APG)
27. Quantitative and Qualitative
28. Integrity and ethical values
   Commitment to competence
   Human resource policies & practices
   Assignment of authority and responsibility
   Management philosophy and operating style
   Board of directors and audit committee
   Organizational structure

29. The successor auditors audit inherently relies upon the opening balances which were audited by the predecessor.
W08 132 mt2- VERSION #2—WRITE ON SCANTRON!!!

Student: ___________________________________________________________________________

COMPLETE #1-25 ON GREEN SCANTRON.
COMPLETE #26-29 IN THE SPACE PROVIDED
COMPLETE #30 IN YOUR BLUE BOOK, THIS WILL BE GRADED BY THE INSTRUCTOR

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