Complete the 40 multiple choice questions on your green scantron. Complete the other questions in the space provided. YOU HAVE 1 HOUR AND 15 MINUTES TO COMPLETE--TIME MAY BE A FACTOR. Be sure to address all of the questions.

Name: __________________________  Perm #: _____________

1. To be effective, analytical procedures in the overall review stage of an audit engagement should be performed by.
   A) The staff accountant who performed the substantive auditing procedures.
   B) A beginning staff accountant who has had no other work related to the engagement.
   C) A manager or partner who has a comprehensive knowledge of the client's business and industry.
   D) The CPA firm's quality control manager.

2. The components of the risk of misstatement are:
   A) Inherent Risk: Yes; Control Risk: Yes; Detection Risk: Yes
   B) Inherent Risk: Yes; Control Risk: Yes; Detection Risk: No
   C) Inherent Risk: Yes; Control Risk: No; Detection Risk: No
   D) Inherent Risk: No; Control Risk: Yes; Detection Risk: Yes

3. 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.

4. 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 nonfinancial data.
   C) Comparisons of financial statement amounts with budgeted amounts.
   D) Comparisons of financial statement amounts with comparable prior year amounts.

5. 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.
6. Analytical procedures are required at the planning stage of all audits and as:
A) Tests of internal control.
B) Substantive tests.
C) A part of the final overall review.
D) Computer generated procedures.

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

8. A CPA wishes to use a representation letter as a substitute for performing other audit procedures. Doing so:
A) Violates professional standards.
B) Is acceptable, but should only be done when cost justified.
C) Is acceptable, but only for non-public clients.
D) Is acceptable and desirable under all conditions.

9. Which of the following is true about analytical procedures?
A) Performing analytical procedures results in the most reliable form of evidence.
B) Analytical procedures are tests of controls used to evaluate the quality of a client's internal control structure.
C) Analytical procedures are used for planning, but they should not be used to obtain evidence as to the reasonableness of specific account balances.
D) Analytical procedures are used in planning, as a substantive test of specific accounts, and in the final review of the audited financial statements.

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

11. The Statements on Auditing Standards have been issued by the:
A) Auditing Standards Board.
B) Financial Accounting Standards Board.
C) Securities and Exchange Commission.
D) Federal Bureau of Investigation.

12. 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.
13. The serially-numbered pronouncements issued by the Auditing Standards Board over a period of years are known as:
   A) Auditing Statements of Position (ASPs).
   B) Accounting Series Releases (ASRs).
   C) Statements on Auditing Standards (SASs).
   D) Statements on Auditing Principles (SAPs).

14. 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.

15. 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.

16. Which of the following terms best describes the audit of a taxpayer's tax return by an IRS auditor?
   A) Operational audit.
   B) Internal audit.
   C) Compliance audit.
   D) Government audit.

17. 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

18. An attestation engagement:
   A) Has as its primary source of standards the assurance standards.
   B) Includes a report on subject matter, or on an assertion about subject matter.
   C) Includes search and verification procedures for all major accounts.
   D) Is ordinarily an examination, review or compilation engagement.

19. Which of the following is not a type of auditors' opinion?
   A) Adverse.
   B) Ordinary.
   C) Qualified.
   D) Unqualified.
20. Requirements for training, independence and due professional care are included in which group of the generally accepted auditing standards?
A) Fieldwork.
B) General.
C) Reporting.
D) Quality control.

21. 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

22. An audit should be designed to achieve reasonable assurance of detecting material misstatements due to:
A) Errors.
B) Errors and fraud.
C) Errors, fraud, and those illegal acts with a direct effect on financial statement amounts.
D) Errors, fraud and illegal acts.

23. The first paragraph of the standard unqualified audit report is referred to as the:
A) Introductory paragraph.
B) Opening paragraph.
C) Opinion paragraph.
D) Scope paragraph.

24. Primary responsibility for the financial statements lies with:
A) Auditors: Yes; Management: Yes
B) Auditors: Yes; Management: No
C) Auditors: No; Management: Yes
D) Auditors: No; Management: No

25. A requirement that working papers be reviewed by the supervisor, and any deficiencies be discussed with the preparer is an example of a quality control procedure in the area of:
A) Acceptance and continuance of clients and engagements.
B) Engagement performance.
C) Personnel management.
D) Independence, integrity and objectivity.
26. The auditors' examination performed in accordance with generally accepted auditing standards generally should:
A) Be expected to provide absolute assurance that illegal acts will be detected where internal control is effective.
B) Be relied upon to disclose violations of truth in lending laws.
C) Encompass a plan to actively search for all illegalities which relate to operating aspects.
D) Not be relied upon to provide absolute assurance that all illegal acts will be detected.

27. An investor reading the financial statements of The Sundby Corporation observes that the statements are accompanied by an unqualified auditors' report. From this the investor may conclude that:
A) Any disputes over significant accounting issues have been settled to the auditors' satisfaction.
B) The auditors are satisfied that Sundby is operationally efficient.
C) The auditors have ascertained that Sundby's financial statements have been prepared accurately.
D) Informative disclosures in the financial statements but not necessarily in the footnotes are to be regarded as reasonably adequate.

28. 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).

29. Which of the following statements is true with respect to the SEC's concept of independence when an auditor both prepares financial statements and audits those financial statements for a client?
A) The auditor is not independent.
B) The auditor is independent if he or she is able to maintain a level of professional detachment.
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 cannot audit the financial statements since a lack of integrity exists.
30. A small CPA firm provides audit services to a large local company. Almost eighty percent of the CPA firm's revenues come from this client. Which statement is most likely to be true?
A) Appearance of independence may be lacking.
B) The small CPA firm does not have the proficiency to perform a larger audit.
C) The situation is satisfactory if the auditor exercises due skeptical negative assurance care in the audit.
D) The auditor should provide an “emphasis of a matter paragraph” to his/her audit report adequately disclosing this information and then it may issue an unqualified opinion.

31. Contingency fee based pricing of accounting services is:
A) Always strictly prohibited in public accounting practice.
B) Never restricted in public accounting practice.
C) Prohibited for clients for whom attestation services are provided.
D) Considered an act discreditable to the profession.

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

33. 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.

34. 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) Managers employees assigned to an office that does not participate in the engagement.
D) All firm professionals, regardless of their position.

35. 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.
36. Which of the following acts by a CPA would be most likely to be a violation of the AICPA Code of Professional Conduct?
   A) Assisting a client in preparing a financial forecast.
   B) Forming a professional corporation to practice as a CPA.
   C) Accepting a fee in a tax matter that is contingent upon the result of an administrative proceeding.
   D) A “covered member” owns an immaterial amount of stock in an audit client.

37. In which of the following circumstances would a covered member be considered independent when performing the audit of the financial statements of a new client for the year ended December 31, 20X3?
   A) The covered member resigned on January 17, 20X3 from the board of directors of the client, prior to accepting the new audit engagement.
   B) The covered member continues to hold an immaterial indirect financial interest in the client.
   C) The covered member continues to serve as a trustee for the client's pension plan and has the authority to make investment decisions.
   D) The covered member's spouse owns an immaterial amount of shares of common stock in the client.

38. 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.

39. The AICPA Code of Professional Conduct would be violated if a CPA accepted a fee for services and the fee was:
   A) Fixed by a public authority.
   B) Based on a price quotation submitted in competitive bidding.
   C) Determined based on the results of judicial proceedings.
   D) Payable if the audit of the financial statements led to a loan.

40. When an accountant is not independent, the accountant is precluded from issuing a:
   A) Compilation report.
   B) Review report.
   C) Management advisory report.
   D) Tax planning report.

41. An attestation engagement provides ________________. (hint: one word)
42. The Sarbanes-Oxley Act of 2002 placed significant restrictions on the types of consulting that may be performed by auditors for their public company audit clients.

a. List four types of services that are prohibited by the Act.
b. List three types of consulting functions that the AICPA Code of Professional Conduct indicates impairs the auditors' independence.

USE ABOVE SPACE TO ANSWER

43. There are auditing standards which fall into three broad categories. The third category is "reporting". List the two other categories as well as the standards under each of the categories.

USE THE ABOVE SPACE TO ANSWER.
Answer Key

1. C
2. B
3. D
4. A
5. C
6. C
7. B
8. A
9. D
10. A
11. A
12. A
13. C
14. A
15. C
16. C
17. A
18. B
19. B
20. B
21. B
22. C
23. A
24. C
25. B
26. D
27. A
28. B
29. A
30. A
31. C
32. C
33. C
34. A
35. D
36. D
37. B
38. B
39. D
40. B
41. Assurance
42. a. Services restricted by the Sarbanes-Oxley Act include: (only four required)
  * Financial information systems design and implementation
  * Appraisal or valuation services (e.g., pension, post-employment benefit liabilities)
  * Actuarial services
  * Internal audit outsourcing
  * Management functions or human resources
  * Providing various investment services
  * Legal services

b. Consulting involving the following functions are prohibited by the AICPA for audit clients: (only three required)
  * Authorizing, executing or consummating a transaction
  * Preparing source documents (e.g., purchase orders, payroll time records, and customer orders)
  * Having custody of client assets
  * Supervising client employees in their normal recurring activities
  * Determining which recommendations should be implemented
  * Reporting to the board of directors on behalf of management
  * Serving as a client's stock transfer or escrow agent, registrar, or its general counsel

43. General Standards
   T Adequate technical training and proficiency as an auditor.
   I Independence in mental attitude is to be maintained by the auditor.
   P Due professional care is to be exercised.

   Standards of Fieldwork
   P Work is to be adequately planned and properly supervised
   I Sufficient understanding of internal control is to be obtained
   E Sufficient competent evidential matter is to be obtained to afford a reasonable basis for the opinion