1. The auditors who find that the client has committed an illegal act would be most likely to withdraw from the engagement when the:
   A) Auditors cannot reasonably estimate the effect of the illegal act on the financial statements.
   B) Management fails to take appropriate corrective action.
   C) Illegal act has material financial statement implications.
   D) Illegal act has received widespread publicity.

2. The risk that information is misstated is referred to as:
   A) Business risk.
   B) Information risk.
   C) Inherent risk.
   D) Relative risk.

3. Which of the following is not a typical analytical procedure?
   A) Comparison of the financial information with budgeted amounts.
   B) Study of relationships of the financial information with relevant nonfinancial information.
   C) Comparison of the financial information with similar information regarding the industry in which the entity operates.
   D) Comparison of recorded amounts of major disbursements with appropriate invoices.

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

5. From the options below, select the form of audit evidence which is the least "reliable"
   A) Third party confirmations
   B) Information provided by the accounting information system
   C) Client representations
   D) Physical evidence
6. The most stringent independence standards apply to:
   A) Employees
   B) Non-attest services
   C) Covered members
   D) Close relatives

7. 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) Independence, integrity and objectivity.
   B) Acceptance and continuance of clients and engagements.
   C) Engagement performance.
   D) Personnel management.

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

9. The client operates in a rapidly emerging industry where large complex contracts are executed with their customers. The recognition of revenue requires the application of a complex accounting standard and involves much subjectivity. Which risk below is certainly high relative to the above information?
   A) Detection risk
   B) Audit risk
   C) Control risk
   D) Inherent risk

10. For the purposes of a covered member, the term "immediate family" does not include:
    A) Your mother
    B) Your spousal equivalent
    C) Your spouse
    D) Your dependant child
11. Which of the following is not a basic approach often used by auditors to evaluate the reasonableness of accounting estimates?
   A) Independent development of an estimate.
   B) Review of subsequent events.
   C) Review of management's process of development.
   D) Confirmation of amounts.

12. In which of the following may a public accounting firm perform services under a contingent fee arrangement?
   A) In connection with an audit, only if the contingent fee is contingent upon the issuance of an unqualified opinion.
   B) If the public accounting firm provides attest services and that engagement is already complete and the report issued.
   C) 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.
   D) If the public accounting firm provides no attest services, they may receive contingent fees for the preparation of an original or amended tax return.

13. Although the quantity, type, and content of working papers will vary with the circumstances, the working papers generally would include the:
   A) Auditing procedures followed and the testing performed in obtaining evidential matter.
   B) Auditor's comments concerning the efficiency and competence of client management personnel.
   C) Copies of those client records examined by the auditor during the course of the engagement.
   D) Evaluation of the efficiency and competence of the audit staff assistants by the partner responsible for the audit.

14. 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) Hold any direct investment in an audit client of yours
   C) Work at an audit client of yours in a key position
   D) Get their car insurance from a company which is an audit client of yours

15. With respect to auditing management's fair value estimates, which is the most compelling source of information to the auditor when available:
   A) Subsequent events and transactions bearing upon the estimate.
   B) 976-pysch
   C) Recomputation
   D) Independant estimation by the auditor using data available as of the balance sheet date
16. Primary responsibility for the financial statements lies with:
   A) Auditors: No; Management: Yes
   B) Auditors: Yes; Management: Yes
   C) Auditors: No; Management: No
   D) Auditors: Yes; Management: No

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

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

19. 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) There are no specific rules related to this issue.
   B) It is allowable subject to approval by the company's board of directors.
   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.

20. Failure to detect material dollar errors in the financial statements is a risk which the auditors primarily mitigate by:
   A) Assessing control risk.
   B) Performing substantive tests.
   C) Obtaining a client representation letter.
   D) Performing tests of controls.

21. In which paragraph of an audit report are auditing standards generally accepted in the United States explicitly mentioned?
   A) Introductory: No; Scope: Yes; Opinion: Yes
   B) Introductory: Yes; Scope: Yes; Opinion: Yes
   C) Introductory: No; Scope: Yes; Opinion: No
   D) Introductory: Yes; Scope: No; Opinion: No
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 404
   C) Sarbanes-Oxley Act Section 403(a)
   D) ERISA Act of 1986

23. In general, which of the following statements is correct with respect to ownership, possession, or access to working papers prepared by a CPA firm in connection with an audit?
   A) The working papers are the property of the client after the client pays the fee.
   B) The working papers must be retained by the CPA firm for a period of ten years.
   C) The working papers are subject to the privileged communication rule which, in a majority of jurisdictions, prevents third-party access to the working papers.
   D) The working papers may be obtained by third parties where they appear to be relevant to issues raised in litigation.

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

25. 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) The brother of a staff working on an audit of XYZ, Inc.
   C) A staff member of an office other than the office performing the audit of XYZ, Inc.
   D) A partner in the same office as the office performing the audit of XYZ, Inc.

26. When considering the use of management's written representations as audit evidence about the completeness assertion, an auditor should understand that such representations:
   A) Constitute sufficient evidence to support the assertion when considered in combination with a moderate assessed level of control risk.
   B) Are generally sufficient evidential matter to support the assertion regardless of the assessed level of control risk.
   C) Replace the assessed level of control risk as evidence to support the assertions.
   D) Complement, but do not replace, substantive tests designed to support the assertion.
27. Which of the following is one of the elements of quality control?
   A) Due professional care.
   B) Acceptance and continuance of clients and engagements.
   C) Supervision.
   D) Assurance of proper levels of association.

28. 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) Heath Ledger
   B) Trial balance
   C) General ledger
   D) Sub-ledger

29. Requirements for training, independence and due professional care are included in which group of the generally accepted auditing standards?
   A) General.
   B) Quality control.
   C) Fieldwork.
   D) Reporting.

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

31. A CPA firm establishes quality control policies and procedures for deciding whether to accept a new client or continue to perform services for a current client. The primary purpose for establishing such policies and procedures is:
   A) To lessen the exposure to litigation resulting from failure to detect fraud in client financial statements.
   B) To enable the auditor to attest to the integrity or reliability of a client.
   C) To comply with the quality control standards established by regulatory bodies.
   D) To minimize the likelihood of association with clients whose managements lack integrity.

32. Once registered with the PCAOB, a "resgistered" public accounting firm becomes subject to periodic reviews by the PCAOB.
   A) True
   B) False
33. 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) Attestation Engagement.
   B) Peer Review Engagement.
   C) Quality Control Engagement.
   D) Quality Assurance Engagement.

34. Which of the following is not a function of working papers?
   A) Aid partners in planning and conducting future audits.
   B) Document staff compliance with generally accepted auditing standards.
   C) Provide support for the accounting records.
   D) Provide support for the auditors' report.

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

36. State the name of the organization which is responsible for establishing the Statements on Auditing Standards and administering the CPA exam.

37. SOX strictly prohibits the performance of 8 types of non-audit services for audit clients. List at least 5 of those prohibited services.
38. Public accounting firms which wish to perform audits of public companies must first register with this entity:

39. 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.

40. Under GAAS, what must an auditor do if they rely upon the work of a specialist in connection with their audit?
41. Management makes assertions in the financial statements and it is the auditor's responsibility to audit these assertions. Please list the "management assertions" (hint: 5 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?
Answer Key

1. B
2. B
3. D
4. D
5. C
6. C
7. C
8. B
9. D
10. A
11. D
12. C
13. A
14. C
15. A
16. A
17. D
18. C
19. B
20. B
21. C
22. B
23. D
24. C
25. D
26. D
27. B
28. C
29. A
30. C
31. D
32. A
33. B
34. C
35. C
36. American Institute of Certified Public Accountants (AICPA)
37. Bookkeeping
   - Financial systems design and implementation
   - Appraisal or valuation services
   - Actuarial services
   - Internal audit outsourcing
   - Management functions or human resource services
   - Investment services
   - Legal services
38. Public Company Accounting Oversight Board (PCAOB)

39. 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**

40. - Ensure the professional qualifications of the specialist

- Understand the methods and assumptions (or "methodology") used by the specialist

- Test data furnished to the specialist and used by the specialist in arriving at their conclusions.

41. 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.