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1. The highest level of independence requirement is applied to a:
   A) Close relative, which includes a sibling of a covered member.
   B) Close relative which includes a non-dependent child of a covered member.
   C) Covered member, which includes a sibling of a covered member.
   D) Covered member, which includes a spouse of a covered member.

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

3. Which of the following is not an element of quality control?
   A) Engagement performance.  
   B) Monitoring.  
   C) Documentation.  
   D) Personnel management.

4. Which of the following is not a function of working papers?
   A) Aid partners in planning and conducting future audits.
   B) Provide support for the auditors' report.
   C) Document staff compliance with generally accepted auditing standards.
   D) Provide support for the accounting records.
5. The standard short-form auditors' report generally includes an introductory paragraph, a scope paragraph, and an opinion paragraph. In the report the auditors refer to both accounting principles generally accepted in the U.S. and auditing standards generally accepted in the U.S. In which of the paragraphs are these terms used?
A) GAAS in all paragraphs and GAAP in the scope paragraph.
B) GAAP in the scope paragraph and GAAS in the opinion paragraph.
C) GAAP in all paragraphs and GAAS in the opinion paragraph.
D) GAAS in the scope paragraph and GAAP in the opinion paragraph.

6. AccountantsWeBe, LLP has provided bookkeeping services to XYZ, Inc. for the past five years. Recently XYZ’s bank told XYZ that they need financial statements with “assurance”. Which of the following reports would AccountantsWeBe be able to issue?
A) Compilation and review
B) Compilation
C) Audit/Examination
D) Agreed upon procedures

7. Which of the following best describes the reason why independent auditors' report on financial statements?
A) Poorly designed internal control may be in existence.
B) A management fraud may exist and it is more likely to be detected by independent auditors.
C) Different interests may exist between the company preparing the statements and the persons using the statements.
D) A misstatement of account balances may exist and is generally corrected as the result of the independent auditors' work.

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

9. Passage of the Sarbanes-Oxley Act led to the establishment of the:
A) Accounting Enforcement Releases Board.
B) Public Company Accounting Oversight Board.
C) Securities and Exchange Commission.
D) Auditing Standards Board.

10. Once registered with the Public Company Accounting Oversight Board, a public accounting firm:
A) Is subject to the review of the GAO
B) Is subject to the oversight of the PCAOB
C) Is required to have periodic peer reviews only
D) May not perform audits of non-public companies
11. The AICPA Code of Professional Conduct would be violated if a CPA accepted a fee for services and the fee was:
   A) Based on a price quotation submitted in competitive bidding.
   B) Payable if the audit of the financial statements led to a loan.
   C) Fixed by a public authority.
   D) Determined based on the results of judicial proceedings.

12. A requirement that all professional staff obtain a minimum number of hours of continuing professional education each year is an example of a quality control procedure in the area of:
   A) Engagement performance.
   B) Independence, integrity and objectivity.
   C) Acceptance and continuance of clients and engagements.
   D) Personnel management.

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

14. The determining factor in how much audit work is necessary for an audit engagement is dictated by:
   A) The PCAOB
   B) Judgment of the auditor
   C) Specifically defined by the AICPA
   D) The 8 inch binder rule.

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

16. Which of the following types of services is generally provided only by CPA firms?

17. 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) Engagement performance.
   B) Independence, integrity and objectivity.
   C) Acceptance and continuance of clients and engagements.
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18. A partner of KPEYDTPWC, LLC in Charlotte North Carolina, relative to a KPEYDTPWC Los Angeles audit is? (Please assume that the Charlotte Partner is not in a position of influence over the LA Partner.)
   A) Not a covered member but still required to maintain independence from the Los Angeles audit client.
   B) Is and uncovered member and should cover its member or risk arrest for indecent exposure.
   C) A covered member and may have no direct financial interest in the Los Angeles audit client.
   D) Is not a covered member and therefore allowed to have a direct financial interest in the Los Angeles audit client.

19. Public companies are required to have their internal controls audited under this requirement:
   A) Sarbanes Oxley Act Section 404  
   B) ERISA Act of 1986  
   C) Sarbanes-Oxley Act Section 403(a)  
   D) Internal Revenue Code section 401(k)

20. An audit of a public company includes two opinions, and is referred to as:
   A) Only an opinion on the conformity of the financial statements with GAAP and is referred to as an integrated audit.
   B) Opinions on the conformity of the financial statements with GAAP and the internal controls, and is referred to as an integrated audit.
   C) Only an opinion on the conformity of the financial statements with GAAP and is referred to as a PCAOB audit.
   D) Opinion on the forward looking information included in MD&A as well as the conformity of the financial statements to GAAP and is referred to as an examination.

21. An audit of a non-public company:
   A) Requires that the company's management certify the financial statements.
   B) Requires compliance with the Sarbanes Oxley Act.
   C) Requires that the company and its auditor to be registered with the PCAOB.
   D) Requires an opinion on the internal controls of the company.

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

23. Planning of an audit is (choose the best answer):
   A) Required by GAAS  
   B) Not required.  
   C) A good idea  
   D) Required by GAAS and a good idea
24. The review of a company's financial statements by a CPA firm:
   A) Requires detailed analysis of the major accounts.
   B) Is of similar scope as an audit and adds similar credibility to the statements.
   C) Culminates in issuance of a report expressing the CPA's opinion as to the fairness of the
      statements.
   D) Is substantially less in scope of procedures than an audit.

25. 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) The auditors have ascertained that Sundby's financial statements have been prepared accurately.
   B) Any disputes over significant accounting issues have been settled to the auditors' satisfaction.
   C) Informative disclosures in the financial statements but not necessarily in the footnotes are to be regarded as reasonably adequate.
   D) The auditors are satisfied that Sundby is operationally efficient.

26. An audit is performed without any reliance upon the client’s ability to properly record transactions (no internal controls reliance). Because there is no internal control reliance, the auditor does not plan to do anything relative to internal controls. Is this approach acceptable. Briefly explain why or why not.

27. Does an independent CPA apply auditing procedures in connection with the performance of a review engagement?
28. Accounting Principles Generally Accepted in the United States of America are established by the AICPA. There are 10 standards, which break into three categories. Please list the three categories and under each category, list the standards which apply to that category.

29. List management’s assertions in the financial statements.

30. Briefly discuss whether management representation is a form of audit evidence and if so, how strong it is as a form of evidence.
31. Briefly discuss which company would likely have a higher control risk and why: Company A is a manufacturer of goods which it has been producing for a number of years and is a leader in their industry; Company B is a real estate company which is constantly finding new opportunities and operating in segments which are new to them.

32. Who is responsible for the fair presentation of financial statements?

33. The risk that a company will survive and be profitable is referred to as:

34. A company which operates in a rapidly evolving industry, which requires the understanding of complex arrangements and the application of judgment and complex accounting standards would result in a high risk assessment for which type of risk? (one word answer!)

35. Briefly discuss the responsibility of an auditor with respect to (a) detection of fraud and (b) consideration of fraud risks.

(a) 

(b) 

Answer Key

1. D
2. A
3. C
4. D
5. D
6. B
7. C
8. D
9. B
10. B
11. B
12. D
13. C
14. B
15. D
16. D
17. A
18. D
19. A
20. B
21. C
22. C
23. D
24. D
25. B

26. NO- OBTAINING AN UNDERSTANDING OF INTERNAL CONTROLS IS REQUIRED (OR REFERENCE TO 2ND STD OF FIELDWORK)

27. No

28. General Standards:
   - PERFORMED BY PERSONS ADEQUATELY TRAINED AND PROFICIENT
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30. Management representation IS a form of audit evidence, however it is the WEAKESI form of audit evidence.

31. Company A would have a lower control risk than Company B because working in the same industry for a long time would provide an environment which would benefit strongly from internal controls while also providing an environment where there experience would reveal risks and controls which would mitigate those risks. Company B would be less likely to invest in internal controls because there is less likelihood of a long term benefit as they would be moving on to something new rather than benefitting from an investment in internal controls.

32. Management
33. Business risk
34. Inherent
35. (a) an auditor is responsible for detecting fraud if it has a material impact on the financial statements
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