1. To qualify as "principal auditor" and render an opinion on the financial statements of a company, the auditor must:
   A) Audit at least 50% of the assets, revenues, equity and net income of the company, and reference the audits of other firms if they are relying upon the audits performed by other auditors;
   B) Audit all of the assets, revenues, equity and net income. It is inappropriate to reference or rely upon the audits of other firms.
   C) Audit at least 50% of the assets, revenues, equity and net income of the company, and need not reference the audits of other auditors if those audits were not relied upon (including if the principal auditor performed procedures themselves despite the other auditors work);
   D) Both A & C

2. There is a presumption that the auditor will not test 100% of the activity. In certain instances, the auditor will use her judgment in determining which items to select, while in others, the auditor will not use judgment. In such instances, the auditor is relying upon:
   A) Random number tables
   B) Judgmental sampling techniques
   C) Non-statistical sampling techniques
   D) Statistical sampling techniques

3. The auditor discovers that there is a circumstance which has more than a remote likelihood of occurrence, and while it would not produce a material misstatement, it could produce more than an inconsequential difference. Which statement below is true relative to this finding:
   A) There is a significant deficiency
   B) There is an un-reportable event
   C) The auditor should resign from the engagement.
4. As an auditor, when fraud is detected, you should:
   A) If it is immaterial, there is no need to report it to anyone
   B) Immediately report it to the FBI
   C) Report it to the Company, unless committed by management, then report to the Board of Directors
   D) Report it to the Company, and regardless of its materiality or pervasiveness, the auditor is required to also report it to the Board of Directors

5. Audit planning should be performed:
   A) Prior to performing any substantive audit procedures and prior to assessing control risk.
   B) At the beginning of the engagement and updated continuously based on information obtained during the performance of the audit.
   C) At the beginning of the engagement.
   D) Prior to performing any substantive audit procedures.

6. Auditing cash will generally include which of the following substantive procedures?
   A) Sending confirmations directly to the bank
   B) Obtaining bank reconciliations
   C) Validating that the bank reconciliation agrees to the "bank balance"
   D) All of these

7. Which of the following are benefits of statistical sampling?
   A) Audit fees would not be reasonable if auditors had to audit 100% of all balances and activity.
   B) It helps the auditor to focus their time and attention to the areas of highest risk.
   C) It provides the auditor with a rational means of supporting the amount of work performed in the event that sufficiency of their work is called into question.
   D) All of these answers are true.

8. During audit planning, the auditor seeks to make a preliminary assessment of the risk of significant misstatement (ROSM), which is comprised of:
   A) Detection risk and control risk;
   B) Inherent risk and control risk;
   C) Inherent risk and detection risk;
   D) Control risk inherent risk and detection risk;

9. Which of the following manipulations of cash transactions would overstate the cash balance on the financial statements?
   A) Overstatement of outstanding checks.
   B) Understatement of deposits in transit.
   C) Overstatement of bank services charges.
   D) Understatement of outstanding checks.
10. Many companies have strong internal control processes, but those are not well documented, easily tested or related to financial reporting. This is a result of, and the impact to the auditor is:
   A) Governmental regulation- allowing reliance by the auditor;
   B) Striving to have an easy audit- allowing reliance by the auditor;
   C) Years of operating their business in the most productive way possible- but does not lend to controls the auditor may rely upon;
   D) None of the above.

11. Statistical sampling may be used to test:
   A) Quantitative characteristics, such as substantive tests of details ONLY
   B) Both qualitative and quantitative characteristics- both TOE's and substantive tests of details
   C) Qualitative characteristics, such as test of operating effectiveness of controls ONLY;
   D) None of these

12. Which of the following statements is/ are accurate.
   A) When accepting a new client, the auditor should contact the prospective client's bankers and attorneys.
   B) Once an auditor accepts a client, future analysis of engagement risk is unnecessary;
   C) All but (A) above are accurate.
   D) When accepting a new client, the auditor should contact the predecessor auditing firm;
   E) Each year, the auditor should reassess the engagement risk of an existing client;

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. This is an example of:
   A) Effective cash management.  C) Related party transactions.

14. A client's internal controls are such that it is possible that a greater than inconsequential error, but not a material error, could go undetected in their financial accounting system. This is an example of:
   A) A material weakness
   B) An internal control deficiency in tests of design
   C) A significant deficiency
   D) An unavoidable circumstance

15. Its a good idea for the mail-room to create a control listing of all checks received before forwarding the mail and checks to the appropriate department so that:
   A) The Company can validate the performance of internal controls.
   B) The Company can compare to the deposits to be sure all checks received are accounted for.
   C) The Company has a log which will be important for the bank reconciliation.
D) The Company has a log in case a customer indicates that they sent a payment.

16. The auditor discovers that there is a circumstance which could produce more than an inconsequential error in an amount which could have a material impact to the financial statements. Which statement below is true relative to this finding:
A) There is a reportable condition which the auditor should submit to the FBI and Joint Terrorism Task Force.
B) There is a material weakness which must be reported to the audit committee.
C) There is a material weakness which the auditor should notify the SEC about directly.
D) There is a reportable condition which must be reported to the audit committee.

17. You have worked through an exhausting audit. You discovered many material adjustments, but they were all booked and consequently, you were able to render an unqualified opinion. Assuming that the client has an audit committee, what should be reported to them by you as the auditor?
A) Consideration of internal controls is only required in connection with audits of public companies
B) A substantial deviation of internal controls
C) A material weakness in the internal controls
D) A significant deficiency in the internal controls

18. System controls are beneficial because many of the problems associated with humans can be avoided. If an auditor validates that a system control performed satisfactorily for a transaction, what else must the auditor do before relying upon that control in connection with the audit?
A) Nothing  B) TOD's  C) TOE's  D) TOD's & TOE's

19. After obtaining an understanding of internal control and arriving at a planned assessed level of control risk, an auditor decided to perform tests of controls. The auditor most likely decided that:
A) It would be efficient to perform tests of controls that would result in a reduction in planned substantive tests.
B) Additional evidence to support a reduction in the assessed level of control risk is not available.
C) There were many internal control deficiencies that would allow misstatements to enter the accounting system.
D) An increase in the assessed level of control risk is justified for certain financial statement assertions.

20. 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 request was mailed by the assistant treasurer.
B) The CPA did not sign the confirmation request before it was mailed.
C) Sending the request was meaningless because the account was closed before the year end.
D) The confirmation request was signed by the treasurer.

21. We are auditing XYZ, Co. and discover a fraud risk related to retail store employees giving free merchandise to their friends. The auditors determine that the risk of material misstatement due to this fraud risk is low and that XYZ, Co. has taken appropriate measures to reduce this fraud risk to the greatest extent possible and that they have taken measures to account for the "shrinkage" resulting from this fraudulent activity. Which of the following statements is most accurate regarding how the auditor should proceed relative to this fraud risk factor:
A) The auditor should immediately resign from the engagement and notify the department of justice of the reason for their resignation;
B) The auditor should update their planning to incorporate this factor (if not already identified during planning), but based on the likelihood of misstatement and the measures already taken by management, is not obligated to do anything further.
C) The auditor should continue as if nothing happened as they are only responsible for material misstatements.
D) The auditor should immediately resign from the engagement and notify the audit committee of the reason for their resignation;

22. Under SEC Staff Accounting Bulletin No. 99, materiality assessments should include consideration of:
A) Neither Qualitative nor Quantitative factors.
B) Qualitative factors only;
C) Quantitative factors only;
D) Both Qualitative and Quantitative factors;

23. The management assertion which is most difficult to obtain substantive support for is ___ and is mitigated by ______.
A) Rights and obligations of assets; mitigated by the bank reconciliation review
B) Valuation of liabilities and expenses; mitigated by the search for unrecorded liabilities
C) Completeness of liabilities and expenses; mitigated by the search for unrecorded liabilities
D) Completeness of liabilities and expenses; mitigated by the analysis of doubtful accounts

24. What is most likely to identify a material misstatement in a financial statement?
A) Tests of operating effectiveness C) Tests of design
B) Tests of integrity D) Substantive audit procedures

25. If an auditor is selecting a sample, the auditor must document:
A) Who knows (ps, this is not a very wise answer)
B) Selection criteria is not necessary, but the specific items selected should always be documented
C) How the items were selected, as well as the items selected in a fashion which can be reperformed
D) Only how the items were selected

ANSWER REMAINING QUESTIONS IN THE SPACE PROVIDED PLEASE

26. List the four broad categories of "control activities"

27. List the factors to be considered in evaluating the control environment.
Answer Key

1. D
2. D
3. A
4. C
5. B
6. D
7. D
8. B
9. D
10. C
11. B
12. B
13. D
14. C
15. B
16. B
17. C
18. A
19. A
20. A
21. B
22. D
23. C
24. D
25. C
26. Performance reviews
   Information processing
   Physical controls
   Segregation of duties
27. Integrity and ethical values
   Commitment to competence
   Human resources
   Assignment of authority and responsibility
   Management philosophy and operating style
   Board of directors or audit committee
   Organizational structure