1. If control risk is assessed at less than high, then the auditor:
   A) Must perform tests of design
   B) Must perform tests of operating effectiveness
   C) Has determined there is some merit to the client's internal controls
   D) All of the above

2. Who can own 5% or more of an assurance client's stock?
   A) Partner in a different office
   B) No partner or professional staff of the firm anywhere may own 5% or more of the
      client's stock.
   C) Partner in the office where the client work is performed
   D) Brand new staff in an office far removed

3. Which of the following statements is false regarding workpaper documentation?
   A) The workpapers should document the work performed as well as by whom and who
      has reviewed it
   B) The workpapers should allow for reperformance
   C) If you didn't document it, you didn't do it!
   D) All of the above are true regarding workpaper documentation

4. The determination of what is material considers:
   A) Quantitative factors
   B) either qualitative or quantitative factors
   C) Qualitative factors
   D) Both qualitative and quantitative factors

5. Which of the following services is NOT specifically disallowed to be performed for a
   public company by their auditors?
   A) Actuarial services
   B) Investment services
   C) Bookeeping
   D) Agreed upon procedures
6. Which of the following is accurate with respect to the relationship between an audit and a client's "business risk"
   A) It is the auditors responsibility to assess but not opine upon "business risk".
   B) The auditors opinion directly "opines" upon the business risk of the company.
   C) The auditors opinion indirectly "opines" upon the business risk of the company.
   D) The audit is not designed to assess or opine upon "business risk".

7. The auditor's responsibility with respect to internal controls is as follows:
   A) The auditor must understand the internal controls but is not required to test them unless he plans to rely upon them.
   B) The auditor need only obtain an understanding of internal controls in the event that the controls are expected to be strong.
   C) The auditor has no responsibility if she does not plan to rely upon them.
   D) The auditor must test internal controls on all audit engagements.

8. A very valuable tool which the auditor has with respect to auditing subjective estimates is:
   A) Pompous attitude   B) Planning   C) Formal education   D) Hindsight

9. Which of the following types of audit opinions is rarely issued because a client would not ever pay money for an opinion that says they suck?
   A) Unqualified   B) Qualified   C) Unsubstantiated   D) Adverse

10. Taking a quick glance at an auditors opinion, you notice that there is a fourth paragraph which seems to discuss internal controls. What can you conclude from this cursory review?
    A) It is an adverse opinion
    B) It is an unqualified report.
    C) It is an opinion for a public company.
    D) It is an opinion for a non-public company.

11. As a new auditor, which of the following information received should be treated confidentially, even from employees of the client you are working on?
    A) Information concerning a merger or acquisition
    B) Information regarding a possible violation of a debt covenant.
    C) Payroll data
    D) All of the above
12. 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) The CPA's spouse participates in a savings plan sponsored by the client.
   B) A close relative has a material investment in that client of which the CPA is not aware.
   C) A cousin has an immaterial investment in the client of which the CPA is aware.
   D) The CPA's father is president of the audit client.

13. Substantive audit procedures are those which:
   A) Seek to substantiate a reported balance
   B) Demonstrate compliance with planning requirements
   C) Are documented in a permanent file
   D) Seek to test the functioning of an internal control

14. Which of the following advertisements would be in violation of the AICPA's rules on advertising?
   A) "All of our CPA's were former IRS agents"
   B) "Lowest rates per hour in the County"
   C) All forms of advertising are allowed as they are constitutional rights.
   D) "Everyone's clean in our 'opinion"

15. Which of the following risks is a result only of the client and how they operate their business and the assessment of that risk is not impacted by how much audit work is performed?
   A) Risk of Material Misstatement
   B) Inherent risk
   C) Control risk
   D) All of the above

16. Under which of the following services may an accountant charge a contingent fee?
   A) Review
   B) Agreed upon procedures
   C) Audit
   D) Filing an original or amended tax return
17. Which of the following is true about the auditors responsibility with respect to footnote disclosures in the financial statements.
A) The footnotes are an integral part of the financial statements and consequently the auditors opinion covers the notes as well.
B) The footnotes are subjected to less procedures as they are not as important as the basic financial statements
C) The opinion only covers the basic statements and excludes the footnotes.
D) None of these are valid.

18. You are about to audit XYZ and their internal controls stink. Can you ignore those controls?
A) Yes, if reliance is minimal.
B) No, you must at least document your understanding of the controls in the workpapers.
C) No, internal controls must always be relied upon.
D) Yes, assuming you will not rely upon them.

19. Independence requires that a CPA providing assurance services be independent in:
A) As designated by the SEC  B) Appearance  C) Appearance and fact  D) Fact

20. Which of the following is the weakest form of audit evidence?
A) Documentary evidence  C) Third party confirmations
B) Client representations  D) Physical evidence

21. Which of the following CPA services does NOT require independence
A) Review  B) Audit/ examination  C) Compilation  D) Agreed upon procedures

22. Which of the following is one of the elements of quality control?
A) Supervision.
B) Acceptance and continuance of clients and engagements.
C) Assurance of proper levels of association.
D) Due professional care.

23. Which of the following types of transactions typically receive the most benefit from internal controls?
A) Non-routine transactions  C) Routine transactions
B) Transactions without a paper trail  D) Transactions requiring judgment
24. When using a specialist, an auditor must
   A) Review and understand the report of the specialist
   B) Test the data provided to the specialist
   C) Satisfy herself that the specialist is qualified for the subject area
   D) All of the above

25. An "integrated audit"
   A) Is required for all public companies.
   B) Is optional.
   C) Is required for all entities which receive audits.
   D) Is required for all non-public entities.

26. Which of the following attributes most clearly differentiates a CPA who audits management's financial statements as contrasted to management?
   A) Competence.
   B) Independence.
   C) Keeping informed on current professional developments.
   D) Integrity.

27. Assume that all of the following work for the same public accounting firm who among the following is independent with respect to a Los Angeles client?
   A) Partner in the Los Angeles office who does not work on the engagement
   B) Partner in charge of the US firm who works in the New York City office
   C) Staff in Phoenix office who does some work on the engagement.
   D) Staff in Los Angeles office who do not work on the engagement.

28. Which of the following statements is true regarding confidentiality?
   A) The auditor is bound by confidentiality and their work is consequently "privileged"
   B) The auditor should use reasonable judgment in determining which information is confidential.
   C) The auditor is not bound by confidentiality.
   D) The auditor is bound by confidentiality, however their work is not considered "privileged"

29. If you have worked on the audit of a public company, can you accept a job working there?
   A) Yes, but only after one year
   B) Yes, but only if you can establish your independence.
   C) No
   D) Yes
30. An "integrated audit" is:
   A) Implies that the external auditors coordinate their work with the company's internal audit department.
   B) Implies that the auditor integrate experts in connection with the performance of the audit.
   C) A combination of a financial statement audit and an operational audit.
   D) A combination of a financial statement audit and a compliance audit.

31. Which of the following are potential reasons why there would be a misstatement in the financial statements?
   A) Lack of accounting knowledge    B) Human error    C) Fraud    D) All of these

32. Auditing an estimate should include
   A) Review of subsequent information
   B) Understanding management process for developing their estimate
   C) The auditor developing their own estimate
   D) All of the above

33. Which of the following are true regarding the second paragraph of an auditor’s opinion?
   A) It is the opinion paragraph and indicates that an audit includes examining "on a test basis"
   B) It is the opinion paragraph and indicates the financial statements are the responsibility of management.
   C) It is the scope paragraph and indicates the financial statements are the responsibility of management.
   D) It is the scope paragraph and indicates that an audit is designed to provide reasonable assurance.

34. Which of the following will show all the activity impacting each account of a company?
   A) General ledger       C) Accounts receivable aging
   B) Sub-Ledger          D) Trial balance

35. Which of the following may hold an immaterial direct financial interest in an assurance client:
   A) Daughter of a covered member       C) Brother of a covered member
   B) Covered member                    D) Spouse of covered member
36. What is the most fundamental reason driving demand for audits?
   A) Credibility  B) Compliance  C) Carelessness  D) Caution

37. How much audit evidence must be obtained?
   A) An appropriate amount
   B) A sufficient and appropriate amount where appropriate means "relevant and reliable"
   C) The amount which is specifically agreed upon with the AICPA
   D) A sufficient amount

38. Who is harmed by "eating time"
   A) The team doing the audit next year  C) The firm doing the work
   B) The person eating time  D) All of these

39. Your client enters into only a few transactions in a year, but each is very large and very complex. Furthermore they operate in a highly volatile market and one which is subject to difficult accounting standards. These facts would help the auditor to:
   A) make a preliminary assessment of detection risk
   B) make a preliminary assessment of control risk
   C) make a preliminary assessment of inherent risk
   D) make a preliminary assessment of audit risk

40. PrettyMT, LLP is your client. You have not detected any fraud during your audit, and in fact there was none. Can you conclude from these facts whether the audit is compliant with GAAS with respect to fraud?
   A) NOT GAAS compliant, even if there is no fraud, GAAS requires that the auditor consider fraud risk factors in planning the audit and there is not enough information above to determine if the auditor did this.
   B) GAAS compliant, the auditor is only responsible for the detection of material misstatements.
   C) GAAS compliant, because there was no fraud, it does not matter whether the auditor considered fraud risk factors.
   D) GAAS compliant, the auditor is only responsible for the detection of fraud if it has occurred.
41. Briefly discuss the materiality of the following item:
   Company XYZ has net income of $1,000,000, total assets of $40,000,000 and equity of $15,000,000. The controller is struggling with the determination of a subjective reserve for an asset which has a balance of $10,000... if she provides a reserve against this asset, the company's income, though falling by only 1%, would fall below their "earnings target" for the year and would likely translate into a significant decline in the market value of the company's stock. Is this $10,000 item "material"?

42. Under the heading for the General Standards below, list the general standards. Do the same for the Standards of Fieldwork. Finally, just state what the last category is (you do not need to list the standards which fall under that category.)

   GENERAL STANDARDS:

   STANDARDS OF FIELDWORK:

   STANDARDS OF ____________________.
43. 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. D
2. B
3. D
4. D
5. D
6. D
7. A
8. D
9. D
10. C
11. D
12. D
13. A
14. D
15. D
16. B
17. A
18. B
19. C
20. B
21. C
22. B
23. C
24. D
25. A
26. B
27. D
28. D
29. A
30. D
31. D
32. D
33. D
34. A
35. C
36. A
37. B
38. D
39. C
40. A
41. From a quantitative perspective it is not material as it represents <5% of earnings. However, from a qualitative standpoint it certainly is as it causes the company to miss their earnings target. It is not the job of accountants to manipulate data to achieve desired results. This is material and the determination should NOT consider the
earnings target, only the accountants best and conservative judgment of the likely outcome.

42. 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

STANDARDS OF REPORTING

43. 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.