1. Which is most likely when the assessed level of control risk increases?
   A) Use the maximum number of dual purpose tests.
   B) Change from performing substantive tests at year-end to an interim date.
   C) Use a larger sample size for substantive tests.
   D) Perform substantive tests directed inside the entity rather than tests directed toward parties outside the entity.

2. 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 compare to the deposits to be sure all checks received are accounted for.
   B) The Company can validate the performance of internal controls.
   C) The Company has a log in case a customer indicates that they sent a payment.
   D) The Company has a log which will be important for the bank reconciliation.

3. A client's internal control appears strong, but the CPA has chosen not to test it. The planned assessed level of control risk is at what level?

4. Which of the following factors most likely would cause a CPA to not accept a new audit engagement?
   A) The CPA lacks a thorough understanding of the prospective client's operations and industry.
   B) The prospective client is unwilling to make financial records available to the CPA.
   C) The prospective client has fired its prior auditor.
   D) The CPA is unable to review the predecessor auditor's working papers.
5. Which of the following is correct concerning requirements about auditor communications about fraud?
A) All fraud with a material effect on the financial statements should be reported directly by the auditor to the Securities and Exchange Commission.
B) The auditor has no responsibility to disclose fraud outside the entity under any circumstances.
C) Fraud that involves senior management should be reported directly to the audit committee regardless of the amount involved.
D) Fraud with a material effect on the financial statements should ordinarily be disclosed by the auditor through use of an "emphasis of a matter" paragraph added to the audit report.

6. 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) An internal control deficiency in tests of design
B) An unavoidable circumstance
C) A significant deficiency
D) A material weakness

7. When a company has changed auditors, according to the Professional Standards:
A) The successor must discuss with the predecessor matters bearing on the engagement prior to accepting the engagement.
B) The successor may choose not to attempt any communication with the predecessor auditor.
C) The predecessor must respond fully to all inquiries made by the successor auditor.
D) The successor auditor has the responsibility to initiate contact with the predecessor auditor to ask about the client before the engagement is accepted; the predecessor has no responsibility to initiate this contact, even when aware of matters bearing on the integrity of management.

8. To best test existence, an auditor would sample from the:
A) Source documents to the general ledger.
B) General Ledger to source documents.
C) Source documents to journals.
D) General Ledger to the financial statements.
9. 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

10. 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.

11. An internal control questionnaire indicates that an approved receiving report is required to accompany every check request for payment of merchandise. Which of the following procedures provides the best evidence on operating effectiveness?
    A) Select and examine canceled checks and test whether the related receiving reports are dated no earlier than the checks.
    B) Select and examine receiving reports and test whether the related canceled checks are dated no earlier than the receiving reports.
    C) Select and examine canceled checks and test whether the related receiving reports are dated no later than the checks.
    D) Select and examine receiving reports and test whether the related canceled checks are dated no later than the receiving reports.

12. You just assessed control risk at "less than high", what are you going to do now?
    A) Tests of design
    B) Tests of design and operating effectiveness
    C) More substantive tests of details.
    D) I'm going to Disneyland

13. Which of the following procedures is not performed as a part of planning an audit engagement?
    A) Performing analytical procedures.
    B) Confirmation of all major accounts.
    C) Designing an audit program.
    D) Reviewing the working papers of the prior year.
14. Which of the following is not an example of a likely adjustment in the auditors' overall audit approach when significant risk is found to exist?
   A) Assign personnel with particular skill to areas of high risk.
   B) Apply increased professional skepticism about material transactions.
   C) Obtain increased evidence about the appropriateness of management's selection of accounting principles.
   D) Increase the assessed level of detection risk.

15. 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) Non-statistical sampling techniques
   C) Statistical sampling techniques
   D) Judgmental sampling techniques

16. Which of the following is not one of the assertions made in financial statements by management concerning each major account and class of transactions?

17. The risk of a material misstatement occurring in an account, assuming an absence of internal control, is referred to as:

18. Which of the following statements is not correct?
   A) Confirmation of cash need not be performed if the bank statement agrees to the bank reconciliation which reconciles the bank balance to the balance recorded in the general ledger.
   B) Reviewing interbank transfers is important to the auditor because of the possibility that the client may be engaged in kiting or mistakenly have reported only one side of a transfer between bank accounts.
   C) Even though the year end cash balance can be verified by vouching to the bank statement, confirmations should still be sent directly to the bank and include additional questions about restrictions upon the cash and any financing arrangements with the bank.
   D) Cash is important to the audit process because of its vulnerability to misappropriation, despite the fact that the balance at the balance sheet date may be immaterial.
19. Auditing cash will generally include which of the following substantive procedures?
   A) Validating that the bank reconciliation agrees to the "bank balance"
   B) Sending confirmations directly to the bank
   C) Obtaining bank reconciliations
   D) All of these

20. The auditor faces a risk that the audit will not detect material misstatements in the financial statements. In regard to minimizing this risk, the auditor primarily relies on:
   A) Internal control.  C) Tests of controls.
   B) Statistical analysis.  D) Substantive tests.

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

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

23. The management assertion which is most difficult to obtain substantive support for is ___ and is mitigated by ______.
   A) Completeness of liabilities and expenses; mitigated by the search for unrecorded liabilities
   B) Completeness of liabilities and expenses; mitigated by the analysis of doubtful accounts
   C) Rights and obligations of assets; mitigated by the bank reconciliation review
   D) Valuation of liabilities and expenses; mitigated by the search for unrecorded liabilities
24. 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) An increase in the assessed level of control risk is justified for certain financial statement assertions.
   B) There were many internal control deficiencies that would allow misstatements to enter the accounting system.
   C) Additional evidence to support a reduction in the assessed level of control risk is not available.
   D) It would be efficient to perform tests of controls that would result in a reduction in planned substantive tests.

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

26. Which of the following are benefits of statistical sampling?
   A) It helps the auditor to focus their time and attention to the areas of highest risk.
   B) 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.
   C) Audit fees would not be reasonable if auditors had to audit 100% of all balances and activity.
   D) All of these answers are true.

27. 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
28. The effectiveness of controls is not generally tested by:
   A) Performance of analytical procedures.
   B) Inquiries of appropriate client personnel.
   C) Inspection of documents and reports.
   D) Observation of the application of accounting policies and procedures.

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

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

1. C  
2. A  
3. C  
4. B  
5. C  
6. C  
7. D  
8. B  
9. B  
10. B  
11. C  
12. B  
13. B  
14. D  
15. C  
16. D  
17. A  
18. A  
19. D  
20. D  
21. C  
22. D  
23. A  
24. D  
25. A  
26. D  
27. D  
28. A  
29. Performance reviews  
   Information processing  
   Physical controls  
   Segregation of duties  
30. 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