1. An immaterial loan from the CPA to an officer of a client impairs the independence of the CPA.
   A) True
   B) False

2. 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 father is president of the audit client.
   B) A close relative has a material investment in that client of which the CPA is not aware.
   C) The CPA's spouse participates in a savings plan sponsored by the client.
   D) A cousin has an immaterial investment in the client of which the CPA is aware.

3. A small CPA firm provides audit services to a large local company. Almost eighty percent of the CPA firm's revenues come from this client. Which statement is most likely to be true?
   A) The situation is satisfactory if the auditor exercises due skeptical negative assurance care in the audit.
   B) Appearance of independence may be lacking.
   C) The auditor should provide an “emphasis of a matter paragraph” to his/her audit report adequately disclosing this information and then it may issue an unqualified opinion.
   D) The small CPA firm does not have the proficiency to perform a larger audit.

4. 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: Yes
   B) Errors: Yes; Fraudulent financial reporting: Yes; Misappropriation of assets: Yes
   C) Errors: Yes; Fraudulent financial reporting: Yes; Misappropriation of assets: No
   D) Errors: Yes; Fraudulent financial reporting: No; Misappropriation of assets: No

5. The review of a company's financial statements by a CPA firm:
   A) Culminates in issuance of a report expressing the CPA's opinion as to the fairness of the statements.
   B) Is substantially less in scope of procedures than an audit.
   C) Requires detailed analysis of the major accounts.
   D) Is of similar scope as an audit and adds similar credibility to the statements.
6. Which of the following statements is true with respect to the SEC’s concept of independence when an auditor both prepares financial statements and audits those financial statements for a client?
   A) The auditor cannot audit the financial statements since a lack of integrity exists.
   B) The auditor is not independent.
   C) The auditor is independent if he or she is able to maintain a level of professional detachment.
   D) The auditor can audit the financial statements only if the audit process does not culminate in the expression of an opinion on the financial statements.

7. The provisions of the Sarbanes-Oxley Act of 2002 are most likely to allow which of the following non-audit services for audit clients?
   A) Internal audit outsourcing.
   B) Tax consulting.
   C) Financial information systems design and implementation.
   D) Appraisal or valuation services (e.g., pension, post-employment benefit liabilities).

8. Many small companies elect to have their financial statements reviewed by a CPA firm, rather than incur the cost of an audit.
   A) True
   B) False

9. Which of the following types of services is generally provided only by CPA firms?
   A) Financial statement audits.
   B) Compliance audits.
   C) Operational audits.
   D) Tax audits.

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

11. Partners in CPA firms usually have the responsibility for signing the audit report.
    A) True
    B) False

12. The auditors' report on a corporation's financial statements usually is addressed to the president of the company.
    A) True
    B) False

13. If a CPA violates the AICPA Code of Professional Conduct, the AICPA Trial Board may do all of the following, except:
    A) Revoke the offending member's CPA certificate.
    B) Expel the offending member.
    C) Admonish the offending member.
    D) Suspend the offending member.
14. Staff assistants in CPA firms generally are responsible for planning and coordinating audit engagements.
   A) True
   B) False

15. Financial interests of a CPA's nondependent children are attributed directly to the CPA.
   A) True
   B) False

16. The generally accepted auditing standards adopted by the AICPA include a requirement that the CPAs:
   A) Exercise due professional care in the performance of the examination and the preparation of the report.
   B) Not accept as audit clients companies which compete directly with one another.
   C) Assume responsibility for any losses to the client from fraud which existed during the audit but was not detected by the auditors.
   D) Follow accounting principles adopted by the SEC.

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

18. 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.

19. Which of the following types of employees must be independent of an audit client?
   A) Senior auditors assigned to the office that performs the audit.
   B) All firm professionals, regardless of their position.
   C) Staff assistants assigned to the engagement.
   D) Manages employees assigned to an office that does not participate in the engagement.

20. The right to practice as a CPA is given by which of the following organizations?
   A) The SEC.
   B) The General Accounting Office.
   C) The AICPA.
   D) State Boards of Accountancy.

21. An attestation engagement:
   A) Includes search and verification procedures for all major accounts.
   B) Is ordinarily an examination, review or compilation engagement.
   C) Includes a report on subject matter, or on an assertion about subject matter.
   D) Has as its primary source of standards the assurance standards.
22. Which of the following acts by a CPA would not necessarily be considered an act discreditable to the profession under Rule 501 of the AICPA Code of Professional Conduct?
   A) Robbing a convenience store.
   B) Prohibiting a client's new CPA firm from reviewing the audit working papers after the client has requested the CPA to do so.
   C) Knowingly signing a false tax return.
   D) Engaging in discriminatory employment practices.

23. Primary responsibility for the financial statements lies with:
   A) Auditors: No; Management: Yes
   B) Auditors: No; Management: No
   C) Auditors: Yes; Management: No
   D) Auditors: Yes; Management: Yes

24. The auditors' report may be addressed to the company whose financial statements are being examined or to that company's:
   A) Board of Directors.
   B) Chief operating officer.
   C) Chief financial officer.
   D) President.

25. In which of the following circumstances would a covered member be considered independent when performing the audit of the financial statements of a new client for the year ended December 31, 20X3?
   A) The covered member continues to serve as a trustee for the client's pension plan and has the authority to make investment decisions.
   B) The covered member resigned on January 17, 20X3 from the board of directors of the client, prior to accepting the new audit engagement.
   C) The covered member's spouse owns an immaterial amount of shares of common stock in the client.
   D) The covered member continues to hold an immaterial indirect financial interest in the client.

26. The expression "accounting principles generally accepted in the United States of America":
   A) Appears in the opinion paragraph of the auditors' report.
   B) Appears in both the scope paragraph and the opinion paragraph of the auditors' report.
   C) Does not appear in the auditors' report.
   D) Appears in the introductory paragraph of the auditors' report.

27. Which of the following is not correct relating to the Sarbanes-Oxley Act?
   A) It eliminates a significant portion of the accounting profession's system of self-regulation.
   B) It toughens penalties for corporate fraud.
   C) It restricts the types of consulting CPSs may perform for audit clients.
   D) It created the Public Company Accounting Oversight Board (PCAOB) as a replacement for the Financial Accounting Standards Board.
28. The first paragraph of the standard unqualified audit report is referred to as the:
   A) Opinion paragraph.
   B) Introductory paragraph.
   C) Scope paragraph.
   D) Opening paragraph.

29. The generally accepted auditing standards of field work include a requirement that the auditors
    obtain sufficient competent evidential matter.
    A) True
    B) False

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

1. The board will issue standards (or adopt standards set by others) for audit firm quality controls for the audits of public companies. (7 points)

These standards include:
- Auditing and related attestation, (3 points)
- Quality control, (3 points)
- Ethics, (3 points)
- Independence (3 points)

2. The Independent Auditors’ Report has three paragraphs. What are the three components that make up the Introductory paragraph?

2. The introductory paragraph includes:
- Identification of the financial statements under audit (7 points)
- A statement that the financial statements are the responsibility of the Company’s management. (7 points)
- A statement that the responsibility of the auditor is to express an opinion on the financial statements. (7 points)

3. The Sarbanes-Oxley Act of 2002 requires new roles for audit committees and auditors. The relationship between accounting firms and their publicly held audit clients is different under the new law. Identify four new requirements of the law as it relates to audit committees and auditors.
3. • Auditors will report to and be overseen by the company’s audit committee.  
   • Audit committees must approve all services.  
   • Auditor must report new information to audit committee.  
   • Law prohibits auditors from offering certain non-audit services to audit clients.  
   • Audit partner must be rotated every five years.  
   • Accounting firm will not be able to provide audit services to a public company if one of the company’s top officials was employed by the firm and worked on the company’s audit during the previous year.  

4. The PCAOB issued Auditing Standard No. 1, dated May 14, 2004. What modification did this standard make to the auditors’ report?  

4. In the Auditors’ Report, the auditor must refer to “the standards of the Public Company Accounting Oversight Board (United States).” (7 points)  

5. Fraud is considered an intentional act.  
   a. What are the two types of intentional misstatements?  
   b. What three conditions are generally present when fraud occurs?  

5. Fraud is considered an intentional act.  
   a. What are the two types of intentional misstatements?  
      • Fraudulent financial reporting (7 points)  
      • Misappropriation of assets (7 points)  
   b. What three conditions are generally present when fraud occurs?  
      • Incentive/pressure (7 points)  
      • Opportunity (7 points)  
      • Attitude/rationalization (7 points)  

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