

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) According to generally accepted auditing standards (GAAS), the overall objective of a financial statement audit is _____. 1) _____
 - A) to reduce audit risk to an acceptably low level
 - B) to determine whether the financial principles adopted by management in preparing the financial statements are acceptable
 - C) to enable the auditor to express an opinion as to whether the financial statements are prepared in accordance with generally accepted accounting principles
 - D) to obtain reasonable assurance that the financial statements taken as a whole are free from misstatement, whether due to fraud or error

- 2) Which of the following is the first task that the auditor must accomplish to demonstrate proficiency in auditing? 2) _____
 - A) Evaluate the evidence gathered in the performance of the audit program and decide whether management's assertions conform to generally accepted accounting principles and reality.
 - B) Identify the evidence relevant for the audit of assertions that are made by management in its unaudited financial statements and notes.
 - C) Recognize the underlying assertions made by management in the financial statements and notes.
 - D) Design an audit program to obtain sufficient appropriate evidence about assertions management makes in financial statements and notes.

- 3) Auditors try to achieve independence in appearance in order to _____. 3) _____
 - A) become independent in appearance and in fact
 - B) comply with the generally accepted auditing standards
 - C) maintain an unbiased mental attitude
 - D) maintain public confidence in the profession

- 4) Control risk is _____. 4) _____
 - A) the risk that the auditor will not be able to complete the audit on a timely basis
 - B) the risk that the auditor will not properly control the staff on the audit engagement
 - C) the probability that a material misstatement could occur and not be prevented or detected by the company's internal control policies and procedures
 - D) the probability that a material misstatement could occur and not be detected by the auditor's audit procedures

- 5) The primary purpose of obtaining an understanding of the company's internal controls in the financial statement audit is _____. 5) _____
 - A) to determine whether the company has changed any accounting principles
 - B) to obtain direct sufficient appropriate audit evidence to afford a reasonable basis for an opinion on the financial statements
 - C) to help the auditors develop the audit program
 - D) to make suggestions to management to improve internal controls

- 6) An external auditor is conducting an audit of the financial statements of Camden Corporation. The external auditor is expected to _____. 6) _____
 - A) certify the correctness of Camden's financial statements

es?

- 14) _____

- A) Canadian Public Accountability Board.
 - B) Canadian Coalition for Good Governance.
 - C) The SOX Board.
 - D) The Canadian Securities Commission.
- 15) An assurance engagement is one in which a CPA is engaged to _____. 15) _____
- A) provide tax advice or prepare a tax return based on financial information the CPA has not audited or reviewed
 - B) assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance
 - C) issue a written communication expressing a conclusion concerning a subject matter for which an accountable party is responsible
 - D) testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts
- 16) All of the following are examples of assurance engagements except _____. 16) _____
- A) financial statements review
 - B) tax planning
 - C) internal controls statement
 - D) financial statements audit
- 17) The GAAS general standard relating to the audit of financial statements focuses on all of the following except _____. 17) _____
- A) due professional care
 - B) independence
 - C) planning
 - D) competence
- 18) According to IFAC, which of the following is not one of the elements of quality control? 18) _____
- A) Independence.
 - B) Due professional care.
 - C) Acceptance and continuance of clients.
 - D) Supervision.
- 19) In establishing a quality control system, which area should be of a secondary nature? 19) _____
- A) Creating an internal review process.
 - B) Controlling access to client files.
 - C) Creating an independence and objectivity checklist.
 - D) Creating a program for continuing professional education.
- 20) Williams & Co., a large international CPA firm, will be subject to an external peer review. The peer review will most likely be performed by _____. 20) _____
- A) peer review staff of the Ontario Securities Commission
 - B) employees and partners of another CPA firm
 - C) employees and partners of Williams & Co. who are not associated with the particular audits being reviewed
 - D) peer review staff of CPA Canada
- 21) A report giving conclusions about a firm's compliance with quality control standards is typical of which of the following? 21) _____
- A) Quality review.
 - B) Quality inspection.
 - C) Peer review.
 - D) Practice inspection.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 22) Practice standards are a general set of standards intended to guide the audits of financial statements. 22) _____
- 23) The *CPA Canada Handbook* recommendations are a step-by-step list of procedures auditors have to complete for each engagement. 23) _____
- 24) The general standard of GAAS relates primarily to the personal integrity and professional qualifications of auditors. 24) _____
- 25) Control risk is the risk that an accounting firm's quality control standards will not be adequate. 25) _____
- 26) The fourth reporting standard requires the audit report to comment on the consistency of the accounting principles used in preparing the financial statements. 26) _____
- 27) Audit risk is the risk that an auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. 27) _____
- 28) Reliance on self-regulation of the accounting profession has changed as a result of its perceived failure to detect the problems leading to the corporate scandals of 2002/2003. 28) _____
- 29) Appropriate audit evidence, to be reliable and relevant, must be quantitative, objective, and absolutely compelling. 29) _____
- 30) A prospectus is the information, usually including financial information, about a firm that accompanies any new issuance of shares in a regulated securities market. 30) _____
- 31) The assessment of materiality has a pervasive impact on the audit. 31) _____
- 32) Audit committees monitor management's financial reporting responsibilities. 32) _____
- 33) Practice inspection is something a new auditor does as part of his or her training program. 33) _____

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 34) Alan Fallon was recently promoted to senior accountant. He was put in charge of the Mellow Markets audit because of his experience with other grocery clients. Mellow Markets has a small, but growing chain of natural food stores. This is the first year Mellow Markets has been audited. Because of its growth, Mellow needs additional capital. Mellow intends to take its audited financial statements to a bank to secure a loan.
- Alan has been assigned two inexperienced staff assistants for the audit. Because this is his first audit as a senior, he intends to bring the job in on budget. To save time, he gave the assistants the audit program for Happy Time Food Stores. He told his staff that this would make things go more quickly. He also told them that he could not spend much time with them at the client's place of business because "my time is billed out at such a high rate, we'll go right over budget." He did call them once a day from another audit on which he was working. The assistants told Alan that the audit program did not always match up with what they found at Mellow Markets. Alan responded, "Just cross out whatever is not relevant in the
- au I only make us
dit go over the
probudget."
gra
m When Alan
an came out near
d the end of
do fieldwork, one
n't assistant
ad communicated
d her concern
an that they had
yth not attended
ing the inventory
-it counts at any
wil of the

out-of-t the inventory balance in the general ledger agrees with the total for all the
 own inventory sheets." The next day, Alan reviewed all work papers and submitted
 location the job for review by the manager.

s of
 Mellow Required:

Markets

. The A. Describe three GAAS examination standards.

audit B. Do you believe that the Mellow Markets audit is in compliance with these
 program standards? Explain.

had

stipulate

d that

inventor

y should

be

observe

d for

in-town

stores

only.

Happy

Time

had only

one

store not

in town

while

Mellow

Markets

had

three of

their

five

stores in

other

cities.

Alan

told the

assistant

to get

inventor

y sheets

from the

client

for the

other

stores.

He

added,

"Make

sure that

35) What is the difference between audit procedures and audit standards?

35) _____

36) What is a quality inspection?

36) _____

- 1) C
- 2) C
- 3) D
- 4) C
- 5) C
- 6) B
- 7) B
- 8) B
- 9) D
- 10) B
- 11) A
- 12) A
- 13) D
- 14) A
- 15) C
- 16) B
- 17) C
- 18) B
- 19) A
- 20) B
- 21) C
- 22) TRUE
- 23) FALSE
- 24) TRUE
- 25) FALSE
- 26) FALSE
- 27) TRUE
- 28) TRUE
- 29) FALSE
- 30) TRUE
- 31) TRUE
- 32) TRUE
- 33) FALSE
- 34) **A.**

The examination standards are outlined below.

1. The work should be adequately planned and properly executed using sufficient knowledge of the entity's business as a basis. If assistants are employed, they should be properly supervised.
2. A sufficient understanding of internal control should be obtained to plan the audit. When control risk is assessed below maximum, sufficient appropriate audit evidence should be obtained through tests of controls to support the assessment.
3. Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, enquiry, confirmation, computation, and analysis, to afford a reasonable basis to support the content of the report.

B.

1. The Mellow Markets audit is not in compliance with these standards. A proper audit program was not prepared. This, along with the emphasis on cutting time, means that it is also doubtful that a meaningful knowledge of the client's business was obtained. It appears that the planning portion of the first

exa The lack of time and attention the inexperienced staff received from Alan Fallon is indicative of a
mina violation of the supervision part of the first examination standard.

tion 2. There is no indication of any steps taken to understand, evaluate, or test the internal control of Mellow
stan Markets. This is a violation of the second examination standard.

ard 3. The third examination standard also seems to have been violated. First, the deficiencies in meeting the
was first two examination standards suggest that the auditors could not have obtained sufficient appropriate
clear evidence. In addition, the failure to observe any of the inventory counts in other cities is an additional
ly deficiency-particularly since Mellow is a new client. Finally, ensuring that the inventory sheets agree with
viola the balance in the general ledger account is merely a first step in the audit of inventory. By itself it is not
ted. sufficient appropriate evidence.

35) Audit standards are audit-quality recommendations that remain the same over time for all audits. Audit
procedures, on the other hand, are quite different and include the particular specialized actions auditors
take to obtain evidence in a specific audit engagement.

36) A quality inspection is an examination and evaluation of the quality of the overall practice. It is thus aimed
at the firm level rather than at individuals. It involves extensive study of a firm's quality control document
and includes interviews with audit personnel as well as a detailed study of the quality of work, adherence
to GAAS, and quality control standards on a selection of audit engagements.