

- Question 1 True/False 0 points [Modify](#) [Remove](#)
- Question** The need for assurance services arises because the interests of the users of information may be different from that of the interests of those responsible for providing information.
- Answer** True
 False
- [Add Question Here](#)
- Question 2 True/False 0 points [Modify](#) [Remove](#)
- Question** An audit of financial statements is a form of attestation service.
- Answer** True
 False
- [Add Question Here](#)
- Question 3 True/False 0 points [Modify](#) [Remove](#)
- Question** Independence is an attribute necessary to perform assurance services.
- Answer** True
 False
- [Add Question Here](#)
- Question 4 True/False 0 points [Modify](#) [Remove](#)
- Question** A bank using Milton Company's financial statements to determine the creditworthiness of a potential loan to Milton is a good example of the need for unbiased reporting.
- Answer** True
 False
- [Add Question Here](#)
- Question 5 True/False 0 points [Modify](#) [Remove](#)
- Question** Independence is only required for assurance service providers.
- Answer** True
 False
- [Add Question Here](#)
- Question 6 True/False 0 points [Modify](#) [Remove](#)
- Question** A CPA automatically qualifies as an assurance provider in all areas of business.
- Answer** True
 False
- [Add Question Here](#)
- Question 7 True/False 0 points [Modify](#) [Remove](#)
- Question** Attestation services are a subset of assurance services and *always* involve a report that goes to a third party.
- Answer** True
 False
- [Add Question Here](#)
- Question 8 True/False 0 points [Modify](#) [Remove](#)
- Question** The American Institute of Certified Public Accountants has the primary authority to set auditing standards.
- Answer** True
 False
- [Add Question Here](#)
- Question 9 True/False 0 points [Modify](#) [Remove](#)
- Question** The audit function is unique because it exists to perform services on a "client" on behalf of shareholders, directors and other parties.
- Answer** True
 False
- [Add Question Here](#)
- Question 10 True/False 0 points [Modify](#) [Remove](#)
- Question** Auditing is the process of attesting to assertions about economic actions and events.
- Answer** True
 False
- [Add Question Here](#)
- Question 11 True/False 0 points [Modify](#) [Remove](#)
- Question** Auditing is the process of verifying the accuracy of the financial statements.
- Answer** True
 False
- [Add Question Here](#)

- Question 12 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Internal auditing only provides assurance services to clients.
- Answer** True
✓ False
- [Add Question Here](#)
-
- Question 13 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Auditing exists because users need unbiased information on which to assess management performance and make economic decisions.
- Answer** ✓ True
False
- [Add Question Here](#)
-
- Question 14 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Users prefer management's financial statements over audited financial statements because few users have direct knowledge of the company's operations and management is the most knowledgeable about operations.
- Answer** True
✓ False
- [Add Question Here](#)
-
- Question 15 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Users rely on auditors' independent assessment of financial statement presentation because few users have direct knowledge of the company's operations.
- Answer** ✓ True
False
- [Add Question Here](#)
-
- Question 16 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** An assertion is a positive statement about an action, event, condition, or performance over a specified time period.
- Answer** ✓ True
False
- [Add Question Here](#)
-
- Question 17 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Management is *required* to comment on the fairness of the company's financial presentation. This reduces the auditor's legal responsibility for the opinion rendered on the financial statements.
- Answer** True
✓ False
- [Add Question Here](#)
-
- Question 18 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Audited financial statements should be free from all errors and fraud.
- Answer** True
✓ False
- [Add Question Here](#)
-
- Question 19 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Audited financial statements should be presented fairly according to the substance of GAAP.
- Answer** ✓ True
False
- [Add Question Here](#)
-
- Question 20 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Audited financial statements should be presented fairly according to the substance of GAAS.
- Answer** True
✓ False
- [Add Question Here](#)
-
- Question 21 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Being free from **material** errors is the same as being free from all errors.
- Answer** True
✓ False
- [Add Question Here](#)
-
- Question 22 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** Attestation is confined to an audit of client financial statements.
- Answer** True
✓ False
- [Add Question Here](#)
-
- Question 23 **True/False** **0 points** [Modify](#) [Remove](#)
- Question** An auditor must have a good understanding of the risks associated with a client's industry in order to ensure that the financial statements reflect the underlying substance of accounting transactions and the economic effects of such transactions.
- Answer**

✓ True
False

[◀ Add Question Here](#)

Question 24 True/False 0 points [Modify](#) [Remove](#)

Question Public Company Accounting Oversight Board provides the criteria against which the auditor measures the fairness of financial statement presentation.

Answer True
✓ False

[◀ Add Question Here](#)

Question 25 True/False 0 points [Modify](#) [Remove](#)

Question Generally accepted accounting principles provide the criteria against which the auditor measures the fairness of financial statement presentation.

Answer ✓ True
False

[◀ Add Question Here](#)

Question 26 True/False 0 points [Modify](#) [Remove](#)

Question Businesses that use independent auditors do not need the use of internal auditors.

Answer True
✓ False

[◀ Add Question Here](#)

Question 27 True/False 0 points [Modify](#) [Remove](#)

Question CPA certificates for auditors are issued by state boards of accountancy.

Answer ✓ True
False

[◀ Add Question Here](#)

Question 28 True/False 0 points [Modify](#) [Remove](#)

Question Internal auditing is an objective evaluation function established within an organization.

Answer ✓ True
False

[◀ Add Question Here](#)

Question 29 True/False 0 points [Modify](#) [Remove](#)

Question Operational audits are designed to determine if the company's financial statements are prepared in compliance with GAAP.

Answer True
✓ False

[◀ Add Question Here](#)

Question 30 True/False 0 points [Modify](#) [Remove](#)

Question Governmental auditors perform operational and financial statement audits.

Answer ✓ True
False

[◀ Add Question Here](#)

Question 31 True/False 0 points [Modify](#) [Remove](#)

Question The internal audit profession adheres exclusively to standards set by the Public Company Accounting Oversight Board.

Answer True
✓ False

[◀ Add Question Here](#)

Question 32 True/False 0 points [Modify](#) [Remove](#)

Question The execution of solutions to issues brought to light by internal auditors are the responsibility of management of the organization.

Answer ✓ True
False

[◀ Add Question Here](#)

Question 33 True/False 0 points [Modify](#) [Remove](#)

Question Governmental audit standards are developed by the Public Company Accounting Oversight Board.

Answer True
✓ False

[◀ Add Question Here](#)

Question 34 True/False 0 points [Modify](#) [Remove](#)

Question The American Institute of CPAs sets auditing standards for non-publicly traded companies.

Answer ✓ True
False

[◀ Add Question Here](#)

True/False 0 points [Modify](#) [Remove](#)

Question 35

Question Though often relying on the FASB, the SEC has authority to establish GAAP for publicly traded companies.

Answer True
 False

[Add Question Here](#)

Question 36

True/False **0 points**

[Modify](#) [Remove](#)

Question The SEC has authority to establish GAAP for all business enterprises.

Answer True
 False

[Add Question Here](#)

Question 37

True/False **0 points**

[Modify](#) [Remove](#)

Question The Public Company Accounting Oversight Board was established by the AICPA in response to Securities law.

Answer True
 False

[Add Question Here](#)

Question 38

True/False **0 points**

[Modify](#) [Remove](#)

Question Auditors of public companies need not adhere to the requirements of statutory or regulatory organizations.

Answer True
 False

[Add Question Here](#)

Question 39

True/False **0 points**

[Modify](#) [Remove](#)

Question When the auditor has no reservations about management's financial statements, then the report issued is called a qualified report.

Answer True
 False

[Add Question Here](#)

Question 40

True/False **0 points**

[Modify](#) [Remove](#)

Question Auditors need only understand the rules of accounting as the principles are outdated.

Answer True
 False

[Add Question Here](#)

Question 41

True/False **0 points**

[Modify](#) [Remove](#)

Question An audit is a form of an attestation service.

Answer True
 False

[Add Question Here](#)

Question 42

True/False **0 points**

[Modify](#) [Remove](#)

Question An audit and an assurance service both require a report to a third party.

Answer True
 False

[Add Question Here](#)

Question 43

True/False **0 points**

[Modify](#) [Remove](#)

Question The purpose of assurance services is to improve the quality of the information provided.

Answer True
 False

[Add Question Here](#)

Question 44

True/False **0 points**

[Modify](#) [Remove](#)

Question The internal auditor is a primary provider of assurance services.

Answer True
 False

[Add Question Here](#)

Question 45

True/False **0 points**

[Modify](#) [Remove](#)

Question The internal auditor is a primary provider of operational audits.

Answer True
 False

[Add Question Here](#)

Question 46

Multiple Choice **0 points**

[Modify](#) [Remove](#)

Question The need for assurance services arises for all of the following reasons EXCEPT:

Answer potential bias in providing information.
 Closeness between a user and the organization.
 complexity of the processing systems.

remoteness between a user and the organization.

[Add Question Here](#)

Question 47

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Independent professional services that are provided on financial or other information that improve the quality of decision making are known as

Answer

- internal auditing.
- financial auditing.
- ✓ assurance services.
- attestation services.

[Add Question Here](#)

Question 48

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which one of the following is not a critical component of assurance services?

Answer

- a process on which service is provided
- an assurance service provider
- a user who derives value
- ✓ a CPA

[Add Question Here](#)

Question 49

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which one of the following is not a key attribute needed to perform assurance?

Answer

- subject matter knowledge
- independence
- established criteria or standards
- ✓ accounting skills

[Add Question Here](#)

Question 50

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question A service provided by practitioners that *always* involves a report that goes to a third party is

Answer

- assurance
- attestation
- audit
- ✓ Both B and C.

[Add Question Here](#)

Question 51

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which one of the following is not part of the attest process?

Answer

- gathering evidence about assertions
- ✓ proving the accuracy of the books and records
- evaluating evidence against objective criteria
- communicating the conclusions reached

[Add Question Here](#)

Question 52

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which of the following are part of the attest process?

Answer

- communicating the conclusions reached to a third party
- guaranteeing the accuracy of the books and records
- evaluating evidence against objective criteria
- ✓ A and C
- B and C

[Add Question Here](#)

Question 53

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which one of the following is a potential problem with management's communication of financial information that causes third parties to desire the independent auditor's assessment of the financial statement presentation?

Answer

- complexity of transactions affecting the financial statements
- lack of criteria on which to base information
- remoteness of the user from the organization
- ✓ A and C
- A and B

[Add Question Here](#)

Question 54

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Users of the audit report can reasonably expect the audited financial statements to be

Answer

- complete and contain many of the important financial disclosures.
- ✓ presented fairly according to the substance of GAAP.
- free from all errors.
- all of the above.
- none of the above.

[Add Question Here](#)

Question 55

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which one of the following is **not** a management expectation for independent auditors?

Answer

- an outside source of expertise on accounting matters
- individuals who perform tests and draw conclusions on assertions
- ✓ a participant in management decision making
- a provider of a written communication

[Add Question Here](#)

Question 56 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question Users can reasonably expect audited financial statements to be

- Answer**
- complete and contain all important financial disclosures, be free from material misstatements and be presented fairly.
 - ✓ complete and contain all important financial disclosures, be free from material misstatements and be presented fairly according to GAAP.
 - complete, be accurate and be presented fairly according to GAAP.
 - complete and contain all important financial disclosures, be free from all misstatements and be presented fairly according to the substance of GAAP.

[Add Question Here](#)

Question 57 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question Internal auditors may perform all of the following types of audits **except**

- Answer**
- operational audits.
 - compliance audits.
 - computer system audits.
 - ✓ all of the above may be performed by internal auditors.

[Add Question Here](#)

Question 58 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question An "integrated audit" includes an audit of

- Answer**
- the company's internal controls.
 - the company's financial statements.
 - the company's compliance with its rules and policies.
 - ✓ Both A and B.

[Add Question Here](#)

Question 59 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question Which of the following services is the broadest and most inclusive?

- Answer**
- Audit
 - Attestation
 - ✓ Assurance
 - Compliance

[Add Question Here](#)

Question 60 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question An expectation of the public is that the auditor will recognize that the primary users of audit assurance are

- Answer**
- the clients.
 - the Public Company Accounting Oversight Board.
 - members of management.
 - ✓ third-party users.

[Add Question Here](#)

Question 61 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question Auditing is important in a free market society because

- Answer**
- the public requires CPAs functioning as divisions of regulatory bodies.
 - auditors detect all errors and fraud made by company employees.
 - ✓ it provides reliable information based upon which to judge economic performance.
 - the auditor is an amiable insurance policy for investors.
 - all of the above are true.

[Add Question Here](#)

Question 62 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question Third-party users of the audit report expect the auditor to do all of the following except:

- Answer**
- to evaluate measurements and disclosures made by management
 - ✓ to provide a biased evaluation of the financial statements
 - to determine whether financial statements are presented in accordance with GAAP
 - to gather sufficient evidence to support their opinion

[Add Question Here](#)

Question 63 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question CPA firms performing public financial statement audits must

- Answer**
- register with the American Institute of Certified Public Accountants.
 - register with the Institute of Internal Auditors.
 - register with the U.S. General Accounting Office.
 - ✓ register with the Public Company Accounting Oversight Board.

[Add Question Here](#)

Question 64 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question The auditor of financial statements must make very difficult interpretations regarding authoritative literature. Additionally, the

auditor must

- Answer** ✓
- proceed beyond GAAP to assess how the economic activity is portrayed in the financial statements.
 - force management to make certain decisions regarding their financial statements.
 - disregard independence in order to find the underlying truth of the evidence.
 - establish new criteria by which financial statements may be compared.

[Add Question Here](#)

Question 65 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Results of the financial statement audit are communicated to users through a(n)

- Answer**
- financial statement.
 - written management assertion.
 - ✓ audit report.
 - none of the above.

[Add Question Here](#)

Question 66 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Assurance services may include which of the following?

- Answer**
- attesting to financial statements
 - examination of the economy and efficiency of governmental operations
 - evaluation of a division's performance for management
 - tax preparation services
 - ✓ A, B, and C only

[Add Question Here](#)

Question 67 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The criteria against which the auditor measures the fairness of financial statement presentation are known as

- Answer**
- auditing standards.
 - ✓ generally accepted accounting principles.
 - generally accepted accounting standards.
 - governmental accounting principles.

[Add Question Here](#)

Question 68 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Management of a company is responsible for

- Answer**
- hiring the auditor.
 - ✓ preparing the financial statements.
 - the audit workpapers.
 - independence and obtaining evidence.

[Add Question Here](#)

Question 69 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Which one of the following is an example of management expectations for independent auditors?

- Answer** ✓
- An expert providing a written communication as the product of the engagement.
 - Individuals who perform day-to-day accounting functions on behalf of the company.
 - An active participant in management decision making.
 - An internal source of expertise on financial and other matters.

[Add Question Here](#)

Question 70 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Which one of the following is not a provider of assurance services?

- Answer**
- CPAs
 - internal auditors
 - governmental auditors
 - ✓ AICPA

[Add Question Here](#)

Question 71 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The internal audit profession has emerged and has become active for all of the following reasons **except**:

- Answer**
- management's need for an objective appraisal of organizational or departmental performance
 - increased internal and external emphasis on effective procedures to detect or prevent fraud
 - compliance with Section 404 of the Sarbanes-Oxley Act of 2002
 - ✓ the efforts of the American Public Accounting Board

[Add Question Here](#)

Question 72 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Which one of the following statements is **not** true about internal auditing?

- Answer**
- Internal auditing is an objective evaluation function.
 - Internal auditing is established within an organization.
 - Internal auditing's purpose is to provide assurance regarding the company's compliance with stated policies and procedures.
 - ✓ Internal auditing is established as an independent service to regulatory bodies and creditors.

[Add Question Here](#)

Question 73 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question An audit which has as its purpose the evaluation of the economy and efficiency with which resources are employed is known as a(n)

Answer

- financial audit.
- compliance audit.
- operational audit.
- governmental audit.

[Add Question Here](#)

Question 74 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The audit committee of the board of directors of a company is responsible for

Answer

- hiring the auditor.
- preparing the financial statements.
- the audit workpapers.
- independence and obtaining evidence.

[Add Question Here](#)

Question 75 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The AICPA remains a valuable organization because of its continuing involvement in

Answer

- the audit standard setting process.
- regulation and enforcement of the audit profession.
- education and administration of the CPA exam.
- promulgation of accounting standards.

[Add Question Here](#)

Question 76 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The objective of an operational audit is to

Answer

- evaluate whether laws have been broken by management.
- evaluate fairness of presentation of financial statements.
- evaluate compliances with company rules and regulations.
- evaluate the effectiveness and efficiency with which resources are employed.

[Add Question Here](#)

Question 77 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The primary governing board that performs quality reviews on registered CPA firms that audit public companies is the

Answer

- PCAOB
- GAO
- AICPA
- FASB

[Add Question Here](#)

Question 78 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Congress authorized which of the following organizations to establish generally accepted accounting principles?

Answer

- SEC
- APB
- AICPA
- FASB

[Add Question Here](#)

Question 79 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The public expects auditors to

Answer

- understand and enforce principles that best portray the spirit of FASB concepts.
- be neutral to preparers and users of financial information.
- recognize that the public are the primary users of audit services.
- take more responsibility for the discovery of fraud.
- all of the above are expectations of the public.

[Add Question Here](#)

Question 80 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question CPAs are licensed by the

Answer

- PCAOB.
- AICPA.
- state's board of accountancy.
- state's society of CPAs.

[Add Question Here](#)

Question 81 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The Certified Internal Auditor program is administered by the

Answer

- AICPA.
- IIA.
- state's board of accountancy.
- state's society of CPAs.

[Add Question Here](#)

Question 82 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question The audit agency for the U. S. Congress is the

- Answer**
- SEC.
 - GAO.
 - IIA.
 - AICPA.

[Add Question Here](#)

Question 83

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question The organization that issued the *Internal Control, Integrated Framework* which serves as the primary criterion for evaluating the quality of a company's internal control system is

- Answer**
- PCAOB
 - COSO
 - AICPA
 - GAO

[Add Question Here](#)

Question 84

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Auditing is a systematic process that includes all of the following except:

- Answer**
- communicating results to users
 - procuring and evaluating evidence
 - providing important managerial decisions for a client
 - comparing evidence regarding assertions to certain established criteria

[Add Question Here](#)

Question 85

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question As it relates to an audit, materiality is

- Answer**
- not taken into consideration.
 - related only to the sufficiency of procedures performed.
 - based upon audit fees.
 - determined based upon the importance to a user of the financial statements.

[Add Question Here](#)

Question 86

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which of the following is **not** a component of assurance services?

- Answer**
- information or a process on which the assurance services is provided.
 - report to a third party.
 - a user or a group of users who derive value from the service provided.
 - a service provider.

[Add Question Here](#)

Question 87

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which type of auditor may perform a financial statement audit?

- Answer**
- external auditor.
 - internal auditor.
 - governmental auditor.
 - Both A and C.
 - All of the above.

[Add Question Here](#)

Question 88

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question Which type of auditor may perform an operational audit?

- Answer**
- external auditor.
 - internal auditor.
 - governmental auditor.
 - Both B and C.
 - All of the above.

[Add Question Here](#)

Question 89

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question What is the criteria used in an operational audit?

- Answer**
- GAAP.
 - effectiveness and efficiency.
 - rules and regulations.
 - company policies.
 - Both B and C.

[Add Question Here](#)

Question 90

Multiple Choice

0 points

[Modify](#)

[Remove](#)

Question What is the criteria used in a compliance audit?

- Answer**
- GAAP.
 - effectiveness and efficiency.
 - rules and regulations.
 - company policies.
 - Both C and D.

[Add Question Here](#)

Question 91 - Essay

0 points

[Modify](#) [Remove](#)

Question Attributes of assurance providers

Discuss the three or more attributes that an assurance professional must possess in order to maintain credibility. Explain the importance of these attributes to the assurance process.

- Answer**
- 1) Subject Matter Knowledge - The assurance provider must be an expert in the area of service provided. Expertise in a complex body of knowledge sets the assurance professional apart from others.
 - 2) Independence - The assurance provider must be unbiased, free from conflict of interest, objective and independent of the company receiving assurance services. This allows the professional to remain neutral and free from influence by parties with a vested interest in the outcome of assurance services.
 - 3) Agreed Upon Criteria - Clear criteria must be available for the assurance provider to measure objectives and results against. In a financial statement assurance engagement, the criteria are represented by Generally Accepted Accounting Principles.
 - 4) Process Expertise - Evidence is obtained and evaluated during the course of an assurance engagement. Professionals providing these services must be able to draw accurate conclusions based upon the results of testing competent, sufficient evidence obtained.

[Add Question Here](#)

Question 92 - Essay

0 points

[Modify](#) [Remove](#)

Question Users of financial statements

Identify at least three types of users of financial statements. Describe their primary use of the financial statements and how the misstatement of those statements might injure the user.

Answer Users of audited financial statements may include:

- Management may utilize the audit report to determine whether the financial statements are presented in accordance with GAAP, whether the firm is availing itself of appropriate internal controls, and as a means of evaluating employee performance. Misstatement of the financial statements would cause the client to make erroneous decisions about financial position, internal controls and employee rewards and punishments.
- A financial institution that is asked to make a loan uses the financial statement to judge the credit worthiness of the borrower. Misstatements in the financial statements lead to errors in lending that jeopardize the assets of the bank and depositors.
- A vendor who is asked to grant credit uses the statements and faces injury in a manner similar to the financial institution.
- A third-party stockholder uses the financial statements to determine if the investment will provide the returns consistent with the needs of the investor. Misstatements of the financial statements will lead to different results or possible loss of the investment.
- Others: Potential stockholders, taxing authorities, regulatory agencies, labor unions, employees, bondholders, court system, retirement plans, or retired employees

[Add Question Here](#)

Question 93 - Essay

0 points

[Modify](#) [Remove](#)

Question Overview of Financial Statement Audit

Define auditing and discuss how its components fit into an overview of a financial statement audit.

Answer Financial statement auditing has been defined as a "systematic process of actively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users."

[Add Question Here](#)

Question 94 - Essay

0 points

[Modify](#) [Remove](#)

Question Professional and regulatory organizations

Identify at least four professional or regulatory organizations. Explain how and why they assist and/or monitor the audit and assurance profession.

Answer **PCAOB** is the primary governing regulatory body of auditors of public company financial statements. It was established by the Congress as a result of the Sarbanes-Oxley Act of 2002. It sets auditing standards for audits of public companies, requires registration of CPA firms auditing public companies and performs quality reviews of registered firms.

AICPA With the establishment of the PCAOB, the role of the AICPA has diminished. Membership in the organization is voluntary. The AICPA establishes standards for other attestation services, accounting and review services, consulting and tax services. It organizes continuing education programs and administers the Uniform CPA Examination.

State Boards of Accountancy license CPAs and are charged with regulating the profession at the state level.

SEC has been granted authority to establish GAAP for publicly traded companies. Its primary mission is to protect the investing public; it has oversight of the PCAOB.

The **GAO** is responsible for setting forth auditing standards for governmental agencies.

The **IIA** is a voluntary organization that administers the Certified Internal Auditor program and issues standards for the practice of internal audit.

[Add Question Here](#)

Question 95 - Essay

0 points

[Modify](#) [Remove](#)

Question Internal and external auditors

Compare and contrast the work of an internal and an independent external auditor.

Answer The independent external auditor is engaged to perform an audit of the financial statements for the purpose of expressing a professional opinion thereon. The internal auditor is an employee of the company who provides an active appraisal function within an organization to evaluate its activities as a service to the audit committee or board of directors. The work of external and internal auditors is often very similar in form, but the purpose and uses of the work are different. Both groups conform to professional standards that are in many ways similar. Often times, the internal and external auditors work together in identifying potential solutions to problems identified.

[Add Question Here](#)

Question 96 - Essay

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Question Objectives of different audit types

Compare and contrast the objectives of financial, compliance, operational and governmental audits. Include in your answer who performs each type of audit.

Answer Financial audits performed by independent CPAs have as their aim the expression of a professional opinion as to the overall fairness of the statements in all material respects and as to the presentation of these statements in accordance with GAAP. External auditors and governmental auditors may perform them; because of lack of independence, the internal auditor can only assist the external auditor in the performance of an audit of their financial statements.

Compliance audits are a systematic process to determine whether or not an entity's activities are carried out in accordance with standards or policies promulgated by management or regulatory agencies, e.g., rules, laws or regulations. All three types of auditors, external, internal and governmental, perform compliance audits regularly.

Operational audits are systematic appraisals of an entity's operations to determine whether an organization's operations are being carried out in an efficient manner. The criteria used depends very much on the abilities and knowledge of the auditor in judging the efficiency and effectiveness of operations and methods to improve them. All three types of auditors may perform them, i.e., external, internal and governmental, though operational audits are most closely associated with internal and governmental auditors.

Governmental audits are usually performed by employees of the government and they usually encompass all three types of audits just mentioned. The major difference is the governmental orientation. Operational audits for effectiveness and efficiency may be performed, as well as financial audits for compliance with governmental GAAP, and compliance audits with laws, rules and regulations.

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Question 97

Essay

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Question Regulatory and professional bodies

Write the full name of the following regulatory and professional acronyms and describe the function of each entity:

PCAOB

AICPA

SEC

IIA

FASB

Answer PCAOB is the primary governing regulatory body of auditors of public company financial statements. It was established by the Congress as a result of the Sarbanes-Oxley Act of 2002. It sets auditing standards for audits of public companies, requires registration of CPA firms auditing public companies and performs quality reviews of registered firms. The PCAOB is overseen by the SEC.

AICPA With the establishment of the PCAOB, the role of the AICPA has diminished. Membership in the organization is voluntary. The AICPA establishes standards for other attestation services, accounting and review services, consulting and tax services. It organizes continuing education programs and administers the Uniform CPA Examination.

Securities and Exchange Commission Congress established the SEC to regulate the capital market system and establish GAAP for publicly traded companies. The SEC delegated the standard setting authority to the FASB but reviews and suggests standards when necessary. The SEC oversees the responsibilities of the PCAOB.

Institute of Internal Auditors The IIA issues standards and interpretations of standards for internal auditing. It also administers the Uniform CIA Examination and the certified internal auditor program to establish the benchmark measure of competence for the internal auditing profession.

Financial Accounting Standards Board The FASB is charged with issuing authoritative accounting pronouncements.

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Question 98

Essay

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Question Requirements of auditors in public accounting

Recent landscape changes in accounting and auditing developed from corporate fraud and, arguably, auditor failure. In order to continually lead and adapt to the dynamics of regulation, principles based accounting practices and auditing standards, what types of skills and traits are auditors required to possess?

Answer In addition to integrity, ethics and independence, auditors must possess an inherent ability to understand the client. This pertains not only to the manner in which the company operates, but the industry in which the client participates. The auditor must be able to use sound professional judgment and skepticism to perceive issues and propose solutions. An auditor must understand the environment in which a client does business. The surrounding economic, cultural and political aspects of a company are all vital to the auditor's understanding of risks.

An auditor must be able to interpret a complex body of knowledge, apply audit procedures and measure assertions against the criteria of generally accepted accounting principles. Risks must be adequately considered for the audit and the client so that the audit firm may reduce exposure in the marketplace.

Information technology used by clients must also be understood by the auditor so that internal control, prevention and detection of misstatements and the audit trail might be assessed. Similarly, the auditor must use software to perform an audit efficiently and adequately.

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Question 99

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Question The need for assurance services

Identify three reasons for the rise of assurance services.

Answer Three potential reasons for the rise of assurance services are:

1. The party who provides information may bias that information to convey a better impression than the real circumstances merit.
2. Remoteness between an information user and the organization.
3. The complexity of transactions, information or processing systems may make it difficult to determine a proper presentation without an independent review.
4. There is a need to minimize financial surprises. Material errors and fraud must be found and corrected prior to the release of audited financial statements.

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Question 100

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Question Attestation versus assurance

Distinguish between attestation services and assurance services.

Answer Attestation services are a subset of the broader spectrum of assurance services. Attestation services always involve evaluation of an assertion by one party to a third party. Assurance services do not need to involve a report, nor do they need to involve a third party.

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