Auditing The Art and Science of Assurance Engagements (Canadian) 14th edition Arens Test Bank

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Auditing, 14e **(Arens)**
Chapter 2 The Public Accounting Profession and Audit Quality

2.1 Describe the public accounting industry

1) One of the main advantages of a "big" public accounting firm is
A) their lower professional fees due to economies of scale.
B) their ability to share with the client knowledge and experience from similar companies they have audited.
C) their ability to audit nearly all the largest companies worldwide.
D) the increased reliability of their audit reports.
Answer: C
Diff: 2 Type: MC Page Ref: 25
Learning Obj.: 2-1 Describe the public accounting industry

2) National accounting firms in 2015 were those with
A) offices in most major cities and revenues over $100 million.
B) international representation in most cities around the world.
C) offices in all major cities in Canada and revenues over $75 million.
D) national and international affiliations providing services in all major centres.
Answer: A
Diff: 3 Type: MC Page Ref: 25-26
Learning Obj.: 2-1 Describe the public accounting industry

3) Approximately how many public accounting firms in Canada have more than 50 professional staff?
A) 25
B) 50
C) 75
D) 100
Answer: B
Diff: 3 Type: MC Page Ref: 26
Learning Obj.: 2-1 Describe the public accounting industry

4) What is the size of most small local public accounting firms in Canada?
A) fewer than 25 employees
B) between 25 and 49 employees
C) between 50 and 75 employees
D) more than 75 employees
Answer: A
Diff: 3 Type: MC Page Ref: 26
Learning Obj.: 2-1 Describe the public accounting industry

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5) The most common organizational form used by public accounting firms is
A) sole proprietorship or partnership.
B) professional corporation.
C) corporation.
D) co-operative.
Answer: A
Diff: 1 Type: MC Page Ref: 26
Learning Obj.: 2-1 Describe the public accounting industry

6) Large accounting firms are often limited liability partnerships (LLPs) because if their audits are conducted in accordance with CAS (Canadian Auditing Standards),
A) partners not on the engagement would not be liable to pay with their personal assets when the LLP is sued.
B) improved quality control practices can be initiated using technical personnel.
C) more formal requirements are in place when reporting to federal tax authorities.
D) partners are liable to pay with only a limited portion of their personal assets when the LLP is sued.
Answer: A
Diff: 3 Type: MC Page Ref: 26
Learning Obj.: 2-1 Describe the public accounting industry

7) Most international and national accounting firms in Canada are comprised of professional accountants with the designation
A) CIA.
B) CPA.
C) CFE.
D) CISA.
Answer: B
Diff: 2 Type: MC Page Ref: 27
Learning Obj.: 2-1 Describe the public accounting industry

8) What are the staff levels and responsibilities at public accounting firms?
Answer: 1. Partner - Leads the engagement, reviews the overall audit work, and is involved in significant audit decisions. A partner has the ultimate responsibility for conducting the audit and maintaining client relations. Average experience of 10 years.
2. Senior manager - Leads the engagement and reviews the team's work. Works directly with the partner and assists in client relationships. Average experience of 7-10 years.
3. Manager - Helps the in-charge plan and manage the audit, reviews the in-charge's work, and manages relations with the client. A manager may be responsible for more than one engagement at the same time. Average experience of 5-7 years.
4. Senior or in-charge auditor - Coordinates and is responsible for the audit field work, including supervising and reviewing staff work. Average experience of 2-5 years.
5. Staff accountant - Performs most of the detailed audit work. Average experience of 0-2 years.
Diff: 2 Type: ES Page Ref: 27
Learning Obj.: 2-1 Describe the public accounting industry

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9) What are the different business organization structures that an accountant may use? What are the advantages of these structures?
Answer: Accountants may establish a sole proprietorship, a partnership, a limited liability partnership, or a limited liability corporation. The latter two structures are permitted only in certain provinces, based upon provincial legislation.

Advantages:
A sole proprietorship is the only choice if there is only one PA. It is a simple business structure.
A partnership is used to allocate income to all partners and helps ensure that all partners are responsible for the actions of the organization.
A limited liability partnership (or limited liability corporation) is used to limit liability to only those partners who worked on or supervised a particular engagement. This helps protect the personal assets of partners.
Diff: 2 Type: ES Page Ref: 26-27
Learning Obj.: 2-1 Describe the public accounting industry

2.2 Identify the organizations that affect the public accounting profession and their role

1) The *Canada Business Corporation Act* gave authority to Canadian accounting and auditing standard-setters by stating that financial statements
A) must be compiled in accordance with International Financial Reporting Standards.
B) should be prepared in accordance with the standards in the CPA Canada Handbook.
C) must be audited by accountants that reside in Canada.
D) should be prepared in accordance with local financial reporting standards.
Answer: B
Diff: 2 Type: MC Page Ref: 29
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

2) The reason for adopting the CASs is to
A) comply with requirements in the *Canada Business Corporations Act*.
B) respond to the increased litigation risks faced by auditors.
C) be consistent with the international standards of auditing.
D) simplify the auditing process.
Answer: C
Diff: 2 Type: MC Page Ref: 29
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

3) The implementation of the Sarbanes-Oxley requirements in the U.S. resulted in the creation of the PCAOB to oversee listed companies' auditors and develop audit standards. The impact of this requirement in Canada was
A) the creation of new auditing standards to ensure better quality control for audits.
B) revision to the rules of professional conduct for CPAs.
C) additional training requirements for becoming an auditor.
D) the creation of the CPAB to oversee Canadian audit professionals.
Answer: D
Diff: 3 Type: MC Page Ref: 29
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

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4) The implementation of the Sarbanes-Oxley requirements in the U.S. resulted in increased independence requirements for auditors. The impact of this requirement in Canada was
A) the creation of the CPAB to oversee Canadian audit professionals.
B) revisions to the rules of professional conduct for CPAs.
C) additional training requirements for becoming an auditor.
D) modification of the type of opinion provided in an assurance engagement by an auditor.
Answer: A
Diff: 3 Type: MC Page Ref: 30
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

5) What is the purpose of assurance standards issued by the AASB (Auditing and Assurance Standards Board) in Canada?
A) to expose the newly established standards to as many groups as possible
B) to provide current copies of the standards in advance of being placed in the CPA Handbook
C) to provide supporting reference material and other resources
D) to set standards for engagements such as reviews and compilations
Answer: D
Diff: 2 Type: MC Page Ref: 29
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

6) A key difference between the PCAOB in the U.S. and the CPAB in Canada is that
A) the CPAB is involved in the development of auditing standards.
B) the PCAOB is involved in the development of auditing standards.
C) the PCAOB conducts practice inspections of public company auditors.
D) the CPAB conducts practice inspections of public company auditors.
Answer: B
Diff: 2 Type: MC Page Ref: 29-30
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

7) Securities regulations in Canada are the responsibility of
A) a national securities commission.
B) provincial securities commissions.
C) the professional accounting organizations.
D) office of the Auditor General of Canada.
Answer: B
Diff: 1 Type: MC Page Ref: 31
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

8) The *Sarbanes-Oxley Act* of 2002 made it a felony to
A) destroy or create documents to impede a federal investigation.
B) have internal control weaknesses.
C) have a significant internal control weakness.
D) engage in transactions with related parties.
Answer: A
Diff: 2 Type: MC Page Ref: 29-30
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

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9) Who is responsible for developing financial statement audit and assurance standards in Canada?
A) AASB (Auditing and Assurance Standards Board)
B) standards staff at CPA Canada
C) provincial securities commissions
D) the accounting firms who conduct financial statement audits
Answer: A
Diff: 1 Type: MC Page Ref: 29
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

10) A PA firm is conducting an audit of a public company that has operations in both Canada and Finland. There is a conflict between ISAs (International Statements on Auditing) and CASs (Canadian Auditing Standards) for the foreign operations that will be consolidated with the Canadian operations. Which reporting standards should the PA firm follow?
A) Finnish reporting standards
B) Canadian reporting standards
C) international financial reporting standards
D) the best of Canadian or international standards
Answer: C
Diff: 3 Type: MC Page Ref: 28-31
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

11) CPAB's purpose is to
A) develop auditing standards.
B) provide training and continuing education to auditors.
C) clarify and communicate the role of the auditor to the public.
D) improve the public's confidence in independent auditing.
Answer: D
Diff: 2 Type: MC Page Ref: 29
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

12) CPA Canada is the professional accounting organization for Chartered Professional Accountants (CPAs) in Canada. Describe the role and responsibilities of the organization in serving its members.
Answer: Research and Publication: CPA Canada publishes the CPA Discussion & Analysis (D&A) Magazine along with accounting and auditing research studies. CPA Canada also coordinates the CFE exam.
Continuing Education: CPA Canada provides courses, seminars, and online material to update its members on a variety of topics relating to accounting and auditing. It also has six specific specializations for its members.
Establishing Standards and Rules: CPA Canada sets accounting and auditing standards that are published by the CPA and that must be followed by public accountants.
Diff: 2 Type: ES Page Ref: 28-29
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

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13) For each of the following situations, state which element of the profession or society encourages the public accountant to conduct himself at a high level.

A) Marco attended a seminar on the topic of business combinations to ensure he was up to date with the new standard.
B) Barbara referred to the standard on hedging to ensure that her client had the appropriate documentation to qualify for hedge accounting.
C) Gretchen refused to perform the audit of her uncle's restaurant chain.
D) Walid worked overtime all week to ensure that the file was properly documented and met the quality control requirements.
E) Sarah took the summer off to study for the Common Final Examination (CFE) to ensure that she would pass the entrance exam to become a Chartered Professional Accountant.
Answer: A) Continuing Education.
B) CPA Canada Handbook.
C) Code of professional conduct.
D) CPAB review and quality control.
E) Professional examination.
Diff: 2 Type: ES Page Ref: 28-32
Learning Obj.: 2-2 Identify the organizations that affect the public accounting profession and their role

2.3 Describe how the *CPA Canada Handbook - Assurance* is organized

1) When the *CPA Canada Handbook* is silent on an auditing issue, which of the following is the best of the other authoritative sources that the auditor could use?
A) Assurance and Related Services Guidelines (AuG)
B) audit firm practice manuals
C) past practice at the client
D) the PA firm's audit standards partner
Answer: A
Diff: 2 Type: MC Page Ref: 32
Learning Obj.: 2-3 Describe how the CPA Canada Handbook—Assurance is organized

2) The most authoritative requirements for public accountants performing financial statement audits in Canada are the
A) standards used by the client.
B) industry specific standards.
C) *CPA Canada Handbook* requirements.
D) assurance guidelines.
Answer: C
Diff: 2 Type: MC Page Ref: 32
Learning Obj.: 2-3 Describe how the CPA Canada Handbook—Assurance is organized

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3) Which standards relate to public accounting firms' systems of quality control?
A) Canadian auditing standards.
B) Assurance and related services guidelines.
C) Canadian standards on quality control.
D) Provincial securities commissions standards.
Answer: C
Diff: 2 Type: MC Page Ref: 32
Learning Obj.: 2-3 Describe how the CPA Canada Handbook—Assurance is organized

4) As per Canadian Auditing Standards CAS 200.11, the CAS helps the auditors fulfill which of the overall objectives relating to financial statement audits?
Answer:
1) To provide reasonable assurance that the financial statements are not materially misstated.
2) To consider both potential fraud and error.
3) To communicate whether the financial statements comply with an applicable financial reporting framework by using the expression of an opinion.
4) To report on the financial statements, and communicate auditor findings in accordance with the CASs.
Diff: 3 Type: ES Page Ref: 33-34
Learning Obj.: 2-3 Describe how the CPA Canada Handbook—Assurance is organized

2.4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

1) What is an auditor required to do with respect to a client's financial reporting framework?
A) assess whether the framework selected by management is suitable
B) select an applicable framework for use with the financial statements
C) make sure that ASPE or ASNPO are in use for publicly listed companies
D) select the accounting principles to be used as part of the reporting framework
Answer: A
Diff: 2 Type: MC Page Ref: 33-34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

2) When the criteria to be used in the financial statement audit are established, the auditor's responsibility is to
A) evaluate the reporting framework used.
B) select the acceptable financial reporting framework.
C) make a recommendation to management for selecting the framework.
D) create and document the framework used.
Answer: A
Diff: 2 Type: MC Page Ref: 29
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

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3) What is one of the ways that the Canadian Auditing Standards (CASs) make management directly responsible for an organization's financial statements?
A) all listed company management must certify the accuracy of the evidence provided
B) management must provide evidence to support financial statement data
C) management must implement and carry out development of high-quality internal controls
D) companies must use internal auditors to assess the quality of the financial statements
Answer: B
Diff: 3 Type: MC Page Ref: 33-34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

4) What is one of the ways that the Canadian Auditing Standards (CASs) make management directly responsible for an organization's financial statements?
A) All listed company management must certify the accuracy of the evidence provided.
B) Management must implement and carry out development of high-quality internal controls.
C) Management must acknowledge and understand its responsibilities.
D) Companies must use internal auditors to assess the quality of the financial statements.
Answer: C
Diff: 2 Type: MC Page Ref: 34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

5) Canadian Auditing Standards (CASs) require that an audit be conducted using
A) a controls-testing approach.
B) a risk-assessment approach.
C) a substantive approach.
D) a standard approach.
Answer: B
Diff: 3 Type: MC Page Ref: 35
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

6) Canadian Auditing Standards (CASs) are best described as
A) the *CPA Canada Handbook*, plus published research and public accounting firm practices in auditing.
B) Canadian generally accepted auditing practices developed by public accounting firms.
C) material that is fully codified in the *CPA Canada Handbook* developed in Canada.
D) standards for financial statement audits based only on International Standards on Auditing (ISAs).
Answer: A
Diff: 1 Type: MC Page Ref: 33
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

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7) When conducting an audit, the auditor should look at Canadian Auditing Standards as
A) minimum standards of performance.
B) normal standards of performance.
C) ultimate standards of performance.
D) practical standards of performance.
Answer: A
Diff: 2 Type: MC Page Ref: 33-34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

8) Which of the following rights is necessary for the completion of an audit?
A) The right to obtain copies of all documentation needed to conduct the audit.
B) The right to advise management regarding how it should set up its records.
C) The right to publish information when management engages in fraud.
D) The right to have access to the necessary records, information, and explanations.
Answer: D
Diff: 3 Type: MC Page Ref: 34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

9) The codes of professional conduct of the various accounting bodies are meant to
A) provide a standard of conduct for all members, including those in public practice.
B) interpret the assurance recommendations and views of the AASB.
C) provide the rules underlying the audits and related service activities carried on by the accountants.
D) establish the norms for quality control of an audit.
Answer: A
Diff: 2 Type: MC Page Ref: 34-35
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

10) General qualifications and conduct standards indicate that performance of all aspects of auditing should be performed with due care. This means that the auditor must fulfill his/her duties
A) in accordance with the CAS.
B) carefully and in a timely manner.
C) to the satisfaction of the client.
D) diligently and carefully.
Answer: D
Diff: 2 Type: MC Page Ref: 35
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

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11) Adequate planning and execution to reduce risk to an acceptable level is a requirement of which category of Canadian auditing standards (CAS)?
A) purpose of audit
B) performance responsibility
C) personal responsibility
D) reporting
Answer: B
Diff: 2 Type: MC Page Ref: 35
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

12) The third step of performance responsibility standard in the financial statement audit using a risk assessment approach is to
A) identify risks of material misstatement.
B) determine and apply materiality levels.
C) evaluate audit evidence.
D) ensure adequate planning and supervision.
Answer: A
Diff: 3 Type: MC Page Ref: 35-36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

13) The risk response phases of conducting the financial statement audit using a risk assessment approach includes
A) conducting an independence threat analysis to evaluate independence.
B) preparation of the final auditor's report in response to audit findings.
C) identification of risks of material misstatement at the client.
D) gathering evidence to assess the likelihood of material misstatement.
Answer: D
Diff: 2 Type: MC Page Ref: 35-36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

14) During which phase(s) of the financial statement audit does the auditor "evaluate evidence" when using a risk assessment approach?
A) the risk assessment phase
B) the risk response phase
C) the reporting phase
D) the performance and reporting phases
Answer: D
Diff: 3 Type: MC Page Ref: 35-36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

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15) Communicating the findings of the audit in accordance with CASs is a requirement of which category of generally accepted auditing standards?
A) general
B) performance
C) reporting
D) quality
Answer: C
Diff: 2 Type: MC Page Ref: 36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

16) A strategic and risk-based audit approach means that the client must be assessed in the context of the business environment, including which of the following?
A) ensuring that accounting complies with IFRS or ASPE
B) completion of an independence threat analysis with supporting documentation
C) corporate governance process and quality of internal controls
D) talking to those audit committee members who are also part of management
Answer: C
Diff: 2 Type: MC Page Ref: 36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

17) During which phases of the financial statement audit does the auditor "conduct quality control" when using a risk assessment approach?
A) the risk assessments
B) the risk responses
C) the reporting process
D) performance and reporting phases
Answer: D
Diff: 2 Type: MC Page Ref: 28-31
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

18) Who do the external auditors and the internal auditors usually report to?
A) senior management
B) audit committee
C) chief executive officer
D) director of internal audit
Answer: B
Diff: 1 Type: MC Page Ref: 37-38
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

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19) Adequate technical training and proficiency in auditing is a requirement of which category of generally accepted auditing standards?
A) personal
B) examination
C) reporting
D) quality control
Answer: A
Diff: 2 Type: MC Page Ref: 34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

20) CAS 200 provides overall objectives of the independent auditor during the conduct of an audit in four categories. How do these standards provide guidance to auditors?
A) They detail what an auditor should do during each financial statement audit.
B) They represent a framework for further discussion of detailed standards.
C) They provide specific rules about how work should be done for evidence gathering.
D) They explain how the audit report should be developed and distributed.
Answer: B
Diff: 2 Type: MC Page Ref: 33-36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

21) CAS 200 explains that as part of general qualifications and conduct, the auditor should be professionally competent. Which of the following help the auditor achieve competence?
A) using due care in the performance of all aspects of auditing
B) having an objective state of mind and independence from the client
C) having formal education and practical experience, and pursuing continuing education
D) conducting the audit using a risk-based approach and being skeptical
Answer: C
Diff: 3 Type: MC Page Ref: 33-34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

22) CAS 200 explains that as part of general qualifications and conduct, the auditor should exercise due care in the performance of all aspects of auditing. Which of the following is an illustration of due care?
A) having an objective state of mind and independence from the client
B) having formal education and practical experience in the conduct of auditing
C) issuing a standard audit report using the *CPA Canada Handbook* specified wording
D) considering the completeness of the working papers
Answer: D
Diff: 3 Type: MC Page Ref: 33-34
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

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23) Professional skepticism during the financial statement audit requires an appropriate state of mind: being impartial and objective and continuing to be throughout the whole audit engagement. Which of the following illustrates an appropriate state of mind?
A) not having any ownership in the client's shares or being a debt-holder
B) carefully assessing documents and not being the company's advocate
C) matching documents to make sure that they are accurate and fair
D) being aware that there could be material misstatements in the financial statements
Answer: D
Diff: 2 Type: MC Page Ref: 35
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

24) The Canadian Auditing Standards are organized around four principles. List and state the nature of these principles.
Answer:
1. Purpose of the Audit:
• Purpose is to provide an opinion on the financial statements.
2. Personal Responsibilities:
• Possess appropriate competence and capabilities.
• Comply with ethical and independence requirements.
• Maintain professional skepticism and exercise professional judgment.
3. Performance Responsibilities:
•Obtain reasonable assurance about whether financial statements are free of material misstatement through performing the following:
• Plan audit and supervise engagement team.
• Determine and apply materiality level or levels.
• Identify and assess risks of material misstatement based on understanding entity and its environment including internal controls.
• Obtain sufficient appropriate audit evidence.
4. Reporting Responsibilities:
• Express opinion on financial statements in a written report.
• State whether financial statements were presented in accordance with financial reporting framework.
Diff: 2 Type: ES Page Ref: 33-36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

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25) Canadian Auditing Standards (including the *CPA Canada Handbook*) are the authoritative standards for the conduct of financial statement audits in Canada. How would this affect the audit of a Canadian company that is owned by a Swedish company that must also report using Swedish (International) auditing standards?
Answer:
• the audit of the foreign subsidiary must be conducted using Canadian Auditing Standards.
• as long as the audit complies with CAS, it may also be conducted in accordance with international GAAS.
• the auditor may report that the audit was conducted using both Canadian and Swedish (International) Auditing Standards.
• Canadian Auditing Standards would be the floor (or minimum standards).
• differences between the two sets of standards may need to identified.
• where there are differences between the two sets of standards, the auditor should follow Canadian reporting standards.
• the *CPA Canada Handbook* takes precedence over the ISAs when there is a conflict.
Diff: 3 Type: ES Page Ref: 33-36
Learning Obj.: 2-4 Use Canadian Auditing Standards to explain the purpose of and the principles underlying the financial audit

2.5 Understand the drivers of audit quality and explain the competing pressures auditors face that threaten audit quality

1) What is one of the ways that high-profile business failures (such as Enron, WorldCom, and Nortel) have affected the auditing profession?
A) raised the cost of hiring accounting-firm professionals
B) resulted in a need for decreased paperwork on audits
C) lowered the number of professionals working on an audit engagement
D) created increased focus on standards and high-quality audits
Answer: D
Diff: 1 Type: MC Page Ref: 38-39
Learning Obj.: 2-5 Understand the drivers of audit quality and explain the competing pressures auditors face that threaten audit quality

2) There are many elements of quality control at the firm level. Which element does the statement "an organizational culture that emphasizes that quality should be present for audit and review engagements" fall under?
A) leadership responsibilities within the firm
B) general ethical requirements
C) general human resource policies
D) engagement performance
Answer: A
Diff: 2 Type: MC Page Ref: 41
Learning Obj.: 2-5 Understand the drivers of audit quality and explain the competing pressures auditors face that threaten audit quality

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3) What are the four areas that CPAB recommends PA firms should emphasize to improve audit quality?
Answer:
1) Build the right teams.
2) Provide the right support.
3) Conduct in-process reviews.
4) Assign accountability for audit quality.
Diff: 3 Type: ES Page Ref: 39-40
Learning Obj.: 2-5 Understand the drivers of audit quality and explain the competing pressures auditors face that threaten audit quality

2.6 Identify quality control standards and practices within the auditing profession and apply those standards and practices to enhance audit quality

1) According to Canadian Standards on Quality Control (CSQC), which of the following is *not* one of the elements of quality control?
A) monitoring
B) engagement performance
C) leadership responsibilities
D) consistency with prior years
Answer: D
Diff: 3 Type: MC Page Ref: 41
Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession and apply those standards and practices to enhance audit quality

2) A PA firm has an organizational structure that assures the technical review of every engagement by a partner who has expertise in the client's industry. This is an example of good
A) entity-level controls.
B) adherence to professional standards.
C) business risk management.
D) quality controls.
Answer: D
Diff: 3 Type: MC Page Ref: 41
Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession and apply those standards and practices to enhance audit quality

3) There are many elements of quality control at the firm level. Which element does the statement "quality control procedures should be developed, documented, implemented, and communicated" fall under?
A) leadership responsibilities within the firm.
B) general ethical requirements.
C) general human resource policies.
D) engagement quality control review.
Answer: A
Diff: 2 Type: MC Page Ref: 40-41
Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession and apply those standards and practices to enhance audit quality

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4) There are many elements of quality control at the firm level. Which element does the statement "management within a firm should ensure that qualified personnel monitor and address non-compliance with quality-control procedures" fall under?
A) leadership responsibilities within the firm
B) general ethical requirements
C) general human resource policies
D) engagement quality control review
Answer: A
Diff: 2 Type: MC Page Ref: 40-41
Learning Obj.: 2-6 Identify quality control standards and practices within the auditing profession and apply those standards and practices to enhance audit quality

5) There are many elements of quality control at the firm level. Which element does the statement "a firm should establish a formal code of conduct that includes procedures for individuals to disclose differences of opinion and any inappropriate conduct" fall under?
A) leadership responsibilities within the firm
B) general ethical requirements
C) general human resource policies
D) engagement quality control review
Answer: A
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6) Farah is currently auditing Software Synx, a public company. After a long day of work, Farah goes for a drink with her friend John who mentions that he owns shares of Software Synx. Farah indicates that John should hold on to his shares as they will go up next week when the financial statements are released and show an increase of 12% for revenues. Which element of quality control is compromised by Farah?
A) relevant ethical requirements
B) independence
C) human resources
D) engagement performance
Answer: A
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7) Gary West is a sole practitioner. He has conducted the audit of Reggie's Farm for the past 12 years. In the current year, Reggie's Farm expanded by acquiring two other farms, installed a new accounting system, and also started to export to the United States. Gary accepted the audit of Reggie's Farm for the upcoming year even though he has no experience with exports to the U.S. or companies the size of Reggie's Farm. Which element of quality control is compromised for Gary's firm?
A) independence
B) client acceptance or continuance
C) extent of professional development
D) general ethical requirements
Answer: B
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8) Dimitri works at a large public accounting firm. Dimitri referred one of his friends for a junior auditor position. Dimitri's friend was hired despite the fact that he had a criminal record. The partner at the firm did not perform a background check on Dimitri's friend since he was recommended by an employee. Which element of quality control has been compromised?
A) relevant ethical requirements
B) independence
C) human resources
D) engagement performance
Answer: C
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9) There are many elements of quality control at the firm level. Which element does "adequate hiring policies (and documentation of their implementation) that ensure competence and integrity of personnel" relate to?
A) leadership responsibilities
B) independence
C) human resources
D) extent of professional development
Answer: C
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10) There are many elements of quality control at the firm level. Which element does "work assignments that match employee competence and performance evaluations related to audit quality" relate to?
A) leadership responsibilities
B) independence
C) human resources
D) extent of professional development
Answer: C
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11) There are many elements of quality control at the firm level. Which element does "employees should be adequately trained in the skills needed to conduct audits and reviews" relate to?
A) leadership responsibilities
B) independence
C) human resources
D) extent of professional development
Answer: C
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12) Jessica is a summer junior at Branes & Castle, a PA firm. Jessica has only completed three accounting courses in university and has not yet taken her auditing class. A team of auditors from Branes & Castle are starting an audit and Jessica was sent to help them. Jessica
A) can perform work for the audit engagement as long as she is supervised and proper review of her work is performed.
B) should not perform any work pertaining to the audit engagement since she doesn't have sufficient knowledge.
C) should be limited to assisting the audit team with support functions such as photocopying and file assembly.
D) can perform work for the audit engagement on cycles where risk was assessed as low.
Answer: A
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13) There are many elements of quality control at the firm level. Which element does "adequate processes and procedures should be in place to ensure that the audit or review is conducted in accordance with GAAS, that quality control procedures are followed for each engagement, and that the audit is appropriately documented" relate to?
A) leadership responsibilities
B) human resources
C) extent of professional development
D) engagement performance
Answer: D
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14) There are many elements of quality control at the firm level. Which element does "policies in place should include use of second or independent partner review, technical review, documentation, and compliance with quality control processes" relate to?
A) leadership responsibilities
B) engagement performance
C) documentation
D) human resources
Answer: B
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15) There are many elements of quality control at the firm level. Which element does "processes should exist for following up internal and external complaints" relate to?
A) engagement performance
B) engagement quality control review
C) monitoring
D) human resources
Answer: A
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16) For a CPA working as a sole practitioner or working in a small public accounting office, the provincial practice inspectors will likely come to review audit files
A) every three years.
B) every five years.
C) every year.
D) never: files are not reviewed in person.
Answer: A
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17) How do practice inspections affect the ability of a PA firm to have articling students work at the firm? Practice inspectors
A) only permit students to work there if the quality controls are good.
B) review the ability of the office to provide sufficient, appropriate hours.
C) require that students work only on audit engagements, not reviews.
D) consider only work completed by qualified PAs, not students.
Answer: B
Diff: 3 Type: MC Page Ref: 42
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18) Which of the following is a typical consequence to a PA or PA firm if practice inspectors find any files or quality control procedures to be unsatisfactory? The PA
A) will lose the right immediately to conduct audit engagements.
B) will no longer be allowed to sign audit reports for a period of time (such as a year).
C) may be required to revise processes or attend training courses.
D) will be required to rewrite the professional qualification examinations.
Answer: C
Diff: 2 Type: MC Page Ref: 42
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19) Stafford & Sandiford is a public accounting firm with 30 clients who are reporting issuers. Stafford & Sandiford can expect to be inspected by the CPAB
A) once per year.
B) once every 3 years.
C) once every 5 years.
D) randomly.
Answer: B
Diff: 1 Type: MC Page Ref: 42
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20) Larger audits may have established procedures that utilize an audit committee whenever there is a dispute between management and the auditors. What is the purpose of such procedures?
A) to ensure that the auditor understands management's point of view
B) to improve the competence of the financial statement auditors
C) to facilitate the auditors' independence from management
D) to help make sure the audit is conducted following GAAS
Answer: C
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21) Danford, a PA, is setting up his accounting firm as a sole practitioner. Which of the following is *not* an important way that Danford can reduce legal liability with respect to the work completed by his office?
A) participate in the standard-setting process for audit engagements
B) find out when his practice is due for practice inspection
C) hire only qualified personnel and train them well
D) sanction other PAs who engage in improper conduct
Answer: B
Diff: 2 Type: MC Page Ref: 41-42
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22) A) Outline the reasons why provincial CPA organizations conduct practice inspections.
B) How often are these CPA practice inspections done?
C) What are the implications of these CPA practice inspections?
Answer: A) The provincial CPA organizations conduct practice inspections for two reasons:
• to protect the public interest by ensuring that public accountants are adhering to professional standards set out in the *CPA Canada Handbook—Assurance;* and
• to help public accountants improve their professional standards. These inspections, which are mandatory for CPAs in public practice, involve reviewing quality control processes as well as individual audit and/or review engagement files.

B) Practice inspections are normally completed every three years; they can be done annually if the inspectors conclude that the practice unit does not maintain adequate practice standards. In addition to the practice inspections, the CPAB conducts annual inspections for audit firms that have 100 or more reporting issuers. There are 14 firms that fall into this category—all of the Big Four plus 10 other firms. CPAB also inspects, at least every two years, firms with between 50 and 99 reporting issuer audits. Over three years, the majority of the 163 Canadian audit firms registered with CPAB are inspected. Many of the foreign firms are subject to oversight by other audit regulators. These firms are inspected periodically based on CPAB's risk analysis.

C) The provincial practice inspection committee can impose sanctions. These include reinspection the following year and referral to the provincial association's professional conduct committee, which can require the member to take courses, remove the practice unit's right to train students, expel the member from the professional body, and withdraw the member's right to use the "Chartered Professional Accountant" (CPA) designation.
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