Auditing An International Approach (Canadian) 8th edition Smieliauskas Test Bank

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Chapter 02
Auditors' Professional Roles and Responsibilities

Multiple Choice Questions

1. In what way does the regulation of public accountants in Canada help to reduce information risk for investors?
A. By guaranteeing the accuracy of the financial statements.
B. By establishing performance and quality control standards that all public accounting firms must follow when conducting audits.
C. By acting as a source of financial compensation for investors when corporate failures occur.
D. By requiring auditors to quantify and set information risk to a uniformly acceptable level.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-02 The Current Environment of Auditing

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-07 Generally Accepted Auditing Standards

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3. Which of the following is the first task that the auditor must accomplish to demonstrate proficiency in auditing?
A. Identify the evidence relevant for the audit of assertions that are made by management in its unaudited financial statements and notes.
B. Design an audit program to obtain sufficient appropriate evidence about assertions management makes in financial statements and notes.
C. Recognize the underlying assertions made by management in the financial statements and notes.
D. 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.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-09 Generally Accepted Auditing Standards: Ethical Requirements Relating to an Audit of Financial Statements
Topic: 02-10 Competence

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

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-11 Objectivity and Independence

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5. Proper planning and supervision during the performance of an audit encompasses all but which of the following considerations?
A. Obtaining knowledge of the auditee's business
B. Developing an adequate audit plan.
C. Having a complete audit file of working papers documenting the evidence obtained.
D. Ensuring unanimity among members of the audit team concerning audit decisions.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-18 Planning and Supervision

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-20 Internal Control Assessment

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

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-20 Internal Control Assessment

8. An external auditor is conducting an audit of the financial statements of Camden Corporation. The external auditor is expected to _____.
A. certify the correctness of Camden's financial statements
B. make a 100% examination of Camden's records
C. give an opinion on whether Camden's financial statements are fairly presented in all material respects
D. give an opinion on the attractiveness of Camden for investment purposes and critique the wisdom and legality of its business decisions

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-23 Generally Accepted Auditing Standards: Reporting Standards

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9. Which of the following statements best explains an unmodified report opinion?
A. The financial statements contain a departure from GAAP.
B. The auditor was unable to complete the work necessary to form a complete opinion.
C. The auditor was not aware of any reasons not to believe the statements are correct.
D. Based on the evidence obtained, the auditor believes the statements are free of material error.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-23 Generally Accepted Auditing Standards: Reporting Standards

10. What information is included in the Key Audit Matters section of the audit report?
A. A listing of matters where management disagreed with the auditor's final assessment.
B. A list of management's assertions regarding the financial statements.
C. A listing of matters that the auditor has judged to be the most significant in the audit of the financial statements.
D. A list of material misstatements identified in the course of the audit of the financial statements.

Accessibility: Keyboard Navigation
Blooms: Remember
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-23 Generally Accepted Auditing Standards: Reporting Standards

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11. A standard unmodified audit report should be dated _____.
A. no later than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion
B. no earlier than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion
C. as at the end of the year being reported on
D. as at the end of the year the audit work was done

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-23 Generally Accepted Auditing Standards: Reporting Standards

12. Joe Smith, CPA, has been operating is own public accounting practice for several years. His expertise is and has always been in auditing medium-sized private companies in the agricultural industry. Recently, he referred a request to audit a large company in the automotive industry to another firm. In so doing, Joe is best demonstrating compliance with which aspect of the ethical requirements set out in CPA Canada's CAS?
A. Objectivity and Independence
B. Competence
C. Due Professional Care
D. Professional Skepticism

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-09 Generally Accepted Auditing Standards: Ethical Requirements Relating to an Audit of Financial Statements
Topic: 02-10 Competence

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13. Several sources of GAAP consulted by an auditor are in conflict as to the application of an accounting principle. Which of the following should the auditor consider to be the most authoritative?
A. *CPA Canada Handbook*.
B. *CPA Canada Exposure Drafts*.
C. Industry practice.
D. Federal legislation.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-24 Generally Accepted Accounting Principles

14. The reporting standards require that the auditor explicitly report on whether the financial statements _____.
A. contain adequate disclosure of all material matters
B. are in accordance with GAAP
C. used principles that are appropriate for the circumstances
D. were prepared on a consistent basis with the comparative year

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-08 Generally Accepted Auditing Standards: Objectives of the Audit of Financial Statements
Topic: 02-09 Generally Accepted Auditing Standards: Ethical Requirements Relating to an Audit of Financial Statements

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15. Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of _____.
A. objective judgment
B. independent integrity
C. professional skepticism
D. impartial conservatism

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-07 Generally Accepted Auditing Standards

16. Three-Party Accountability includes all of the following parties except _____.
A. users
B. practitioners
C. Audit Committee
D. management

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Explain the importance of general assurance standards using examples of assurance matters.
Topic: 02-28 Assurance Standards

17. Key features of SOX include all of the following except _____.
A. increased penalties for corporate wrongdoers
B. more timely and extensive financial disclosures
C. fewer options of recourse for aggrieved shareholders
D. increased oversight of auditors

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-03 The Sarbanes-Oxley Act

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18. Which of the following has been established to oversee the auditors of public companies?
A. Canadian Coalition for Good Governance.
B. Canadian Public Accountability Board.
C. The SOX Board.
D. The Canadian Securities Commission.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-03 The Sarbanes-Oxley Act
Topic: 02-04 Regulation of Public Accounting

19. An assurance engagement is one in which a CPA is engaged to _____.
A. issue a written communication expressing a conclusion concerning a subject matter for which an accountable party is responsible
B. provide tax advice or prepare a tax return based on financial information the CPA has not audited or reviewed
C. testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts
D. assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Explain the importance of general assurance standards using examples of assurance matters.
Topic: 02-28 Assurance Standards

20. Assurance standards can be applied to which of the following types of engagement?
A. Attestation engagements
B. Direct reporting engagements
C. Both direct reporting and attestation engagements
D. Tax planning and consulting engagements

Accessibility: Keyboard Navigation
Blooms: Remember
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Explain the importance of general assurance standards using examples of assurance matters.
Topic: 02-28 Assurance Standards

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21. The GAAS examination standards relating to the audit of financial statements, mandates each of the following requirements, except for
A. Plan and perform an audit to reduce audit risk to an acceptably low level.
B. Obtain reasonable assurance that the financial statements, taken as whole, are free of all misstatements
C. Conduct an audit that is in accordance with CASs.
D. Obtain a conclusive amount of audit evidence to support your audit opinion.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-07 Generally Accepted Auditing Standards
Topic: 02-13 Generally Accepted Auditing Standards: Examination Standards

22. The term "unqualified audit opinion" is commonly used when referring to an audit report having which characteristic?
A. The auditor who performed the audit was not properly licensed as a CPA.
B. The auditor has no need to call attention to anything wrong with the audit work or the financial statements.
C. The auditor conducted the audit according to a different set of standards than GAAS.
D. That auditor is reporting on financial statements that are not limited to specific reporting period.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-23 Generally Accepted Auditing Standards: Reporting Standards

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23. According to IFAC, which of the following is not one of the elements of quality control?
A. Relevant ethical requirements.
B. Monitoring.
C. Acceptance and continuance of client relationships.
D. Due professional care.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Explain how requirements of quality control standards are monitored for public accounting firms.
Topic: 02-32 Elements of Quality Control

24. In establishing a quality control system, which area should be of a secondary nature?
A. Creating an independence and objectivity checklist.
B. Creating a program for continuing professional education.
C. Creating an internal review process.
D. Controlling access to client files.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Hard
Learning Objective: 02-05 Explain how requirements of quality control standards are monitored for public accounting firms.
Topic: 02-31 Quality Control Standards
Topic: 02-32 Elements of Quality Control

25. Williams & Co., a large international CPA firm, will be subject to an external peer review. The peer review will most likely be performed by _____.
A. employees and partners of Williams & Co. who are not associated with the particular audits being reviewed
B. employees and partners of another CPA firm, hired by Williams & Co.
C. peer review staff of the Ontario Securities Commission
D. peer review staff of CPA Canada

Accessibility: Keyboard Navigation
Blooms: Remember
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Explain how requirements of quality control standards are monitored for public accounting firms.
Topic: 02-31 Quality Control Standards
Topic: 02-32 Elements of Quality Control

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26. A report giving conclusions about a firm's compliance with quality control standards is typical of which of the following?
A. Practice inspection.
B. Quality inspection.
C. Peer review.
D. Quality review.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Explain how requirements of quality control standards are monitored for public accounting firms.
Topic: 02-31 Quality Control Standards
Topic: 02-32 Elements of Quality Control

27. Which of the following is not one of the three elements of the U.S. Auditing Standards AU Section 150?
A. General Standards
B. Reporting Standards
C. Standards of Fieldwork
D. Examination Standards

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 (Appendix 2A) List the generally accepted auditing standards of the United States.
Topic: 02-33 AU Section 150
Topic: 02-34 Auditing Standards

True / False Questions

28. To audit public companies in Canada, an auditor must be a CPA with a public accounting license and have their firm register with the CPAB.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-01 The Essentials of Auditors' Professional Roles and Responsibilities

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29. Practice standards are a general set of standards intended to guide the audits of financial statements.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 List the various practice standards for independent audits of financial statements.
Topic: 02-06 Practice Standards

30. The *CPA Canada Handbook* recommendations are a step-by-step list of procedures auditors have to complete for each engagement.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-07 Generally Accepted Auditing Standards

31. The general standard of GAAS relates primarily to the personal integrity and professional qualifications of auditors.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-07 Generally Accepted Auditing Standards
Topic: 02-08 Generally Accepted Auditing Standards: Objectives of the Audit of Financial Statements
Topic: 02-09 Generally Accepted Auditing Standards: Ethical Requirements Relating to an Audit of Financial Statements

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32. Control risk is the risk that an accounting firm's quality control standards will not be adequate.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-20 Internal Control Assessment

33. The fourth reporting standard requires the audit report to comment on the consistency of the accounting principles used in preparing the financial statements.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-23 Generally Accepted Auditing Standards: Reporting Standards

34. Audit risk is the risk that an auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-16 Reasonable Assurance
Topic: 02-17 Audit Risk and Materiality

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35. 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.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-02 The Current Environment of Auditing

36. In Canada, although the CPA designation is the sole nationally recognized public accounting designation, individual provinces regulate the requirements for the practice of public accounting.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-04 Regulation of Public Accounting

37. A prospectus is the information, usually including financial information, about a firm that accompanies any new issuance of shares in a regulated securities market.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-04 Regulation of Public Accounting

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38. The assessment of materiality has a pervasive impact on the audit.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-16 Reasonable Assurance
Topic: 02-17 Audit Risk and Materiality

39. Audit committees monitor management's financial reporting responsibilities.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-03 The Sarbanes-Oxley Act

40. Under CAS 200 the objective of the financial statement audit is strictly to be able to express an opinion on whether the statements are prepared in conformity to Canadian GAAP.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-08 Generally Accepted Auditing Standards: Objectives of the Audit of Financial Statements

41. The examination standard CAS 200 requires that auditors obtain a conclusive amount of evidence to support their audit opinion
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-13 Generally Accepted Auditing Standards: Examination Standards
Topic: 02-22 Sufficient Appropriate Evidential Matter

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42. Practice inspection is something a new auditor does as part of his or her training program.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-05 Explain how requirements of quality control standards are monitored for public accounting firms.
Topic: 02-31 Quality Control Standards
Topic: 02-32 Elements of Quality Control

Short Answer Questions

43. Explain the effect major corporate failures and financial reporting scandals - such as Enron and WorldCom, has contributed towards shaping the auditing environment of today.

Major, unexpected corporate failures and financial reporting scandals weaken the public's confidence in not only capital markets but in the audit profession. After high-profile accounting scandals occur, like that of Enron, the public perception is that the audit profession has failed to live up to its professional responsibilities but not adequately reducing the information risk faced by investors. Greater calls for oversight of the auditing profession led to the Public Company Accounting Oversight Board (PCAOB) to oversee auditors of public companies in the United States. In Canada, the Canadian Public Accountability Board (CPAB) was similarly created. The result for the audit profession in both countries includes tighter quality control requirements, stricter independence rules, and more frequent practice inspections. In short, the auditing profession has become highly regulated as it continues to face greater public scrutiny. Each scandalous collapse within a particular business sector elicits calls for the government to exercise greater control over auditors and the public accounting profession. In dealing with an increasingly complex financial world, the audit profession faces an increasingly greater threat of losing its ability to affectively self-regulate and instead face more government oversight.

Accessibility: Keyboard Navigation
Blooms: Analyze
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Describe the current audit environment, including developments in regulatory oversight and provincial regulation of public accountants in Canada.
Topic: 02-02 The Current Environment of Auditing

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44. 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 audit program and don't add anything-it will only make us go over the budget."

When Alan came out near the end of fieldwork, one assistant communicated her concern that they had not attended the inventory counts at any of the out-of-town locations of Mellow Markets. The audit program had stipulated that inventory should be observed 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 inventory sheets from the client for the other stores. He added, "Make sure that the inventory balance in the general ledger agrees with the total for all the inventory sheets." The next day, Alan reviewed all work papers and submitted the job for review by the manager.

Required:

A. Describe three GAAS examination standards.

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

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

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

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

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-13 Generally Accepted Auditing Standards: Examination Standards

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45. What is the difference between audit procedures and audit standards?

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.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Summarize the ethical, examination, and reporting standards that make up generally accepted auditing standards as set out in CPA Canada's Canadian Auditing Standards.
Topic: 02-13 Generally Accepted Auditing Standards: Examination Standards
Topic: 02-23 Generally Accepted Auditing Standards: Reporting Standards

46. What are practice inspections and why are they performed?

Practice inspections are a system of reviewing and evaluating practice units' audit files and other documentation by an independent external party. The main objective of practice inspection is to evaluate conformity of the work with the *CPA Canada Handbook* and with the professional ethical principles and rules of conduct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Explain how requirements of quality control standards are monitored for public accounting firms.
Topic: 02-31 Quality Control Standards
Topic: 02-32 Elements of Quality Control

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