Principles of Auditing and Other Assurance Services 21st edition Whittington Test Bank

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Principles of Auditing & Other Assurance Services, 21e **(Whittington)**
Chapter 2 Professional Standards

1) To express an opinion on financial statements, the auditor obtains reasonable assurance about whether the financial statements as a whole are free from all misstatements, whether due to fraud or error.

2) The auditors' report on a corporation's financial statements usually is addressed to the president of the company.

3) For a public company audit, the auditors are primarily responsible for preparing the financial statements and expressing an opinion on whether they follow generally accepted auditing standards.

4) Partners in CPA firms usually have the responsibility for signing the firm's name on the audit report.

5) An audit is more likely to detect tax evasion than violations of antitrust laws.

6) The AICPA *Statements on Attestation Standards* do ***not*** supersede the AICPA *Statements on Auditing Standards*.

7) A peer review is generally performed by employees of the AICPA.

8) If the auditors discover illegal acts by a client, they must immediately report the act to law enforcement.

9) An audit should be designed to obtain reasonable assurance of detecting non-compliance with all laws.

10) The pronouncements of the International Auditing and Assurance Standards Board do ***not*** override the national auditing standards of its members, even when financial statements are issued by a multinational company.

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11) Audits of financial statements are designed to obtain reasonable assurance of detecting misstatement due to:

	Fraudulent Financial Reporting	Misappropriation of Assets
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

12) Financial statements are prepared following a(an)
A) Applicable financial reporting framework.
B) Appropriate subject matter.
C) Generally accepted auditing standards.
D) Set of quality control standards.

13) An attestation engagement:
A) Has as its primary source of standards the assurance standards.
B) Includes a report on subject matter, or on an assertion about subject matter.
C) Includes search and verification procedures for all major accounts.
D) Is ordinarily an examination, review or compilation engagement.

14) An audit provides reasonable assurance of detecting which of the following types of material illegal acts?

	Direct Effect	Without a Direct Effect
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

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15) Which of the following is ***not*** a type of auditors' opinion?
A) Adverse.
B) Conventional.
C) Qualified.
D) Unmodified.

16) Which of the following is one of the elements of AICPA quality control?
A) Assurance of proper levels of association.
B) Due professional care.
C) Human Resources.
D) Supervision.

17) A procedure in which a quality control partner periodically tests the application of quality control procedures is most directly related to which quality control element?
A) Engagement performance.
B) Human resources.
C) Leadership responsibilities for quality with the firm.
D) Monitoring.

18) An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatements, and a critical assessment of audit evidence is referred to as:
A) Reasonable assurance.
B) Professional skepticism.
C) Audit neutralism.
D) Auditing mindset.

19) Which of the following is a principle underlying an audit conducted in accordance with generally accepted auditing standards?
A) The audit provides reasonable assurance the client will remain in business for at least one year.
B) The audit report expresses an opinion on whether the financial statements are free of material and immaterial misstatement.
C) Auditors are responsible for, among other things, maintaining professional objectivism, exercising professional engagement, and obtaining appropriate documentation.
D) An auditor's opinion enhances the degree of confidence that intended users can place in the financial statements.

20) A set of criteria used to determine measurement, recognition, representation, and disclosure of all material items appearing in the financial statements is referred to as a(n)
A) Financial reporting framework.
B) Public Company Accounting Oversight Board Criteria.
C) Quality control presentation standard.
D) Special purpose audit standard.

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21) An audit should be designed to obtain reasonable assurance of detecting material misstatements due to:
A) Errors.
B) Errors and fraud.
C) Errors, fraud, and noncompliance with laws with a direct effect on financial statement amounts and others.
D) Errors, fraud and noncompliance with all laws.

22) Which of the following is accurate, as indicated in the principles underlying an audit?
A) Management is expected to provide the auditors with all needed evidence prior to the beginning of audit work.
B) An auditor is unable to obtain absolute assurance that the financial statements are free from material misstatement.
C) Auditors are responsible for having appropriate competence to perform the audit without the assistance of outside specialists.
D) Management is responsible for preparing accurate financial statement amounts, while auditors are responsible for auditing those amounts and for preparing note disclosures related to those amounts.

23) Which of the following is ***not*** an underlying premise of an audit?
A) Management must provide the auditor with all information relevant to the preparation and fair presentation of the financial statements.
B) Management and the auditors have responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework.
C) Where appropriate, the auditor may obtain information from those charged with governance.
D) The auditors should be provided unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

24) By definition, proper professional skepticism on an audit requires:

	Questioning mind	Subjective assessment of audit evidence
A.	No	No
B.	No	Yes
C.	Yes	No
D.	Yes	Yes

A) Option A
B) Option B
C) Option C
D) Option D

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25) When a *Statement on Auditing Standards* uses the word "should" relating to a requirement, it means that the auditor:
A) Must fulfill the responsibilities under all circumstances.
B) Must comply with requirements unless the auditor demonstrates and documents that alternative actions are sufficient to achieve the objectives of the standards.
C) Should consider whether to follow the advice based on the exercise of professional judgment in the circumstances.
D) May choose to change responsibilities relating to various professional standards that remain under consideration.

26) An unconditional responsibility to follow an AICPA professional standard exists when the professional standard uses the term(s):

	Must	Should
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

27) Which of the following best describes a portion of the auditors' responsibility regarding noncompliance with laws by clients?
A) The auditors have a responsibility to discover all material noncompliance.
B) If audit procedures reveal noncompliance, the auditors should take appropriate actions.
C) If the auditors suspect noncompliance, they should conduct a legal audit of the company.
D) The auditors' responsibility for the detection of all noncompliance is the same as their responsibility regarding material misstatements due to errors and fraud.

28) The auditors who find that the client has committed an illegal act would be most likely to withdraw from the engagement when the:
A) Management fails to take appropriate corrective action.
B) Illegal act has material financial statement implications.
C) Illegal act has received widespread publicity.
D) Auditors cannot reasonably estimate the effect of the illegal act on the financial statements.

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29) Which of the following is **not** included as a part of the description of the auditor's responsibility in a nonpublic company unmodified report?
A) The audit was performed in accordance with generally accepted accounting principles.
B) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
C) The procedures selected depend on the auditor's judgment.
D) An audit includes evaluating the appropriateness of accounting policies used.

30) Primary responsibility for the financial statements lies with:

	Auditors	Management
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

31) Which of the following is explicitly included as a part of the description of management's responsibility in a nonpublic company unmodified audit report?
A) Management is responsible for making a judgment on which misstatements are material vs. immaterial.
B) Management is responsible for providing auditors with all relevant evidence.
C) Management is responsible for the maintenance of internal control.
D) Management is responsible for listing all illegal acts with a direct effect on financial statement amounts and disclosures.

32) The auditors' report for a nonpublic company should indicate:
A) That the audit was made in accordance with auditing standards generally accepted in the United States of America.
B) Any weakness in internal control observed by the auditors.
C) That accounting principles have been consistently applied.
D) That no illegal acts have been identified.

33) The Auditing Standards Board's guidance on matters such as the purpose of an audit, the premise of an audit, and auditor personal responsibilities is included in:
A) The professional responsibilities section of the generally accepted auditing standards.
B) The Code of Professional Conduct.
C) Accounting Series Releases.
D) Principles Underlying an Audit Conducted in Accordance with GAAS.

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34) A requirement that working papers be reviewed by the supervisor, and any deficiencies be discussed with the preparer is an example of a quality control procedure in the area of:
A) Acceptance and continuance of client relationships and specific engagements.
B) Engagement performance.
C) Human resources.
D) Relevant ethical requirements.

35) A requirement to design recruitment processes and procedures to help the firm select individuals meeting minimum academic requirements established by the firm is an example of a quality control procedure in the area of:
A) Acceptance and continuance of client relationships and specific engagements.
B) Engagement performance.
C) Human resources.
D) Relevant ethical requirements.

36) The body that issues international pronouncements providing auditing procedural and reporting guidance is the:
A) International Federation of Auditors.
B) Multinational Reporting Commission.
C) International Auditing and Assurance Standards Board.
D) AICPA Auditing Standards Board.

37) To present fairly in conformity with generally accepted accounting principles, the financial statements must:
A) Be consistently applied.
B) Inform users of all matters that could materially affect a decision.
C) Reflect transactions and events within a range of reasonable limits.
D) Be considered preferable to the users of those financial statements.

38) Which of the following is **not** included in the auditors' standard unmodified audit report for a nonpublic company?
A) The procedures selected by the auditor depend on the auditor's judgment.
B) An audit includes evaluating the appropriateness of accounting policies used.
C) An audit includes evaluating the overall presentation of the financial statements.
D) Preferred accounting principles have been consistently applied.

39) An audit performed in accordance with generally accepted auditing standards should:
A) Be expected to provide absolute assurance that noncompliance with all laws will be detected where internal control is effective.
B) Be relied upon to disclose violations of truth in lending laws.
C) Encompass a plan to actively search for all illegalities which relate to operating aspects.
D) Not be relied upon to provide absolute assurance that all noncompliance with laws will be detected.

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Principles of Auditing and Other Assurance Services 21st edition Whittington Test Bank

40) When the auditors express an opinion on financial statements, their responsibilities extend to:
A) The underlying wisdom of their client's management decisions.
B) Whether the results of their client's operating decisions are fairly presented in the financial statements.
C) Active participation in the implementation of the advice given to their client.
D) An ongoing responsibility for their client's solvency.

41) Authoritative GAAP Sources include:

	FASB Remediation Statements	FASB Codification
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

42) An investor reading the financial statements of The Fairbury Corporation observes that the statements are accompanied by an unmodified auditors' report. From this, the investor may conclude that:
A) Any disputes over significant accounting issues have been settled to the auditors' satisfaction.
B) The auditors are satisfied that Fairbury is operationally efficient.
C) The auditors have ascertained that Fairbury's financial statements are free from error.
D) Informative disclosures in the financial statements but not necessarily in the footnotes are to be regarded as reasonably adequate.

43) A nonpublic company auditors' report is most likely to be addressed to the company whose financial statements are being examined or to that company's:
A) Chief operating officer.
B) President.
C) Audit Committee.
D) Chief financial officer.

44) Which of the following best describes what is meant by generally accepted auditing standards?
A) Acts to be performed by the auditors.
B) Measures of the quality of the auditors' performance.
C) Procedures to be used to gather evidence to support financial statements.
D) Audit objectives generally determined on audit engagements.

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Principles of Auditing and Other Assurance Services 21st edition Whittington Test Bank

45) If noncompliance with a law is discovered during the audit of a publicly held company, the auditors should first:
A) Notify the regulatory authorities.
B) Determine who was responsible for the noncompliance.
C) Intensify the examination to identify noncompliance with any laws.
D) Report the act to those in charge of governance within the client's organization.

46) Which of the following is not a service included in the attestation subject matter standard?
A) Compliance attestation.
B) Financial forecasts and projections.
C) Historical financial statement examination.
D) Service organization controls.

47) Which of the following statements best describes the primary purpose of Statements on Auditing Standards?
A) They are guides intended to set forth auditing procedures which are applicable to a variety of situations.
B) They are procedural outlines which are intended to narrow the areas of inconsistency and divergence of auditor opinion.
C) They are authoritative statements, enforced through the Code of Professional Conduct.
D) They are interpretations which may be useful guidance to auditors.

48) The primary responsibility for the adequacy of disclosure in the financial statements of a publicly held company rests with the:
A) Partner assigned to the audit engagement.
B) Management of the company.
C) Auditor in charge of the fieldwork.
D) Securities and Exchange Commission.

49) Within the context of quality control, the primary purpose of continuing professional education and training activities is to enable a CPA firm to provide personnel within the firm with:
A) Technical training that assures proficiency as an auditor.
B) Professional education that is required in order to perform with due professional care.
C) Knowledge required to fulfill assigned responsibilities and to progress within the firm.
D) Knowledge required in order to perform a peer review.

50) In pursuing a CPA firm's quality control objectives, a CPA firm may maintain records indicating which partners or employees of the CPA firm were previously employed by the CPA firm's clients. Which quality control objective would this be most likely to satisfy?
A) Acceptance and continuance of clients and engagements.
B) Engagement performance.
C) Personnel management.
D) Relevant ethical requirements.

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51) A CPA firm establishes quality control policies and procedures for deciding whether to accept a new client or continue to perform services for a current client. The primary purpose for establishing such policies and procedures is:
A) To enable the auditor to attest to the integrity or reliability of a client.
B) To comply with the quality control standards established by regulatory bodies.
C) To minimize the likelihood of association with clients whose managements lack integrity.
D) To lessen the exposure to litigation resulting from failure to detect fraud in client financial statements.

52) Which of the following is not an element of quality control?
A) Documentation.
B) Engagement performance.
C) Monitoring.
D) Relevant ethical requirements.

53) Generally accepted auditing standards established by the AICPA through April of 2003:
A) Were accepted as interim standards by the Public Company Accounting Oversight Board.
B) Provide accounting guidance for nonpublic companies.
C) Were also adopted as international auditing standards at that date.
D) Are now developed by the Securities and Exchange Commission.

54) The Public Company Accounting Oversight Board has authority to establish which of the following relating to public companies?

	Attestation Standards	Independence Standards
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

55) Which of the following is least likely to be directly examined in an inspection performed by the PCAOB?
A) Audit engagements.
B) Review engagements.
C) Compilation engagements.
D) CPA firm quality control system.

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56) Which of the following is not an element of quality control?
A) Monitoring.
B) Independence.
C) Human resources.
D) Engagement performance.

57) A peer review in which the peer reviewers study and appraise a CPA firm's system of quality control to perform accounting and auditing work is referred to as a(n):
A) Engagement review.
B) Inspection review.
C) Supervision review.
D) System review.

58) An engagement review form of peer review is ***least*** likely to include a peer reviewer's detailed analysis of:
A) Compilation reports.
B) Documentation of procedures followed on a review.
C) Overall system of quality control.
D) Review reports.

59) Of the following, which are current types of peer reviews?

	System Reviews	Engagement Reviews
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

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60) Which of the following types of audits are ordinarily performed following generally accepted auditing standards?

	Public Company Audit	Nonpublic Company Audit
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

61) An audit opinion that states that the financial statements are not fairly presented is referred to as a(n)
A) Adverse opinion.
B) Limited assurance opinion.
C) Negative opinion.
D) Unqualified opinion.

62) The public company audit report is most likely to have a section with the title of:
A) Critical Audit Matters.
B) Management Responsibilities.
C) Shareholder Responsibilities.
D) Type of Conclusion.

63) Ordinarily, a public company audit report must be addressed to:

	Board of Directors	Shareholders
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

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64) The order of presentation of sections in a public company financial statement audit report is:
A) Basis for Opinion, Critical Audit Matters, Opinion.
B) Basis for Opinion, Opinion, Critical Audit Matters.
C) Critical Audit Matters, Basis for Opinion, Opinion.
D) Opinion, Basis for Opinion, Critical Audit Matters.

65) Which of the following is most likely to be included in a public company financial statement audit report?
A) Adverse opinion.
B) The name of the engagement partner.
C) The audit was performed in accordance with generally accepted auditing standards.
D) The year the auditor began serving the company.

66) A public company's audit report must be addressed to the board of directors and the
A) Audit committee.
B) Company itself.
C) President.
D) Shareholders.

67) Which of the following is least likely to be included as a titled section in a standard unqualified public company audit report?
A) Basis for opinion section.
B) Critical audit matters section.
C) Management responsibilities section.
D) Opinion section.

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68) Indicate whether you agree or disagree with the following statements concerning a financial statement audit conducted in accordance with generally accepted auditing standards.

	Statement	
A.	Public companies are ordinarily audited by a CPA firm, with engagement review by the General Accounting Office.	
B.	Audits provide absolute assurance of detecting material misstatements and reasonable assurance of detecting immaterial misstatements.	
C.	For audit purposes, professional skepticism includes a questioning mind and a critical assessment of audit evidence and should be maintained throughout the planning and performance of an audit.	
D.	The Auditing Standards Board issues accounting principles for nonpublic company audits, while the Public Company Accounting Oversight Board issues accounting principles for public company audits.	
E.	Auditors have a higher responsibility for detecting noncompliance with laws affecting financial statement amounts and disclosures than they do for other laws.	
F.	When an auditing standard uses the word "should," this indicates that the auditor must in all cases follow it if the requirement is relevant to the company being audited.	
G.	At one point, the Public Company Oversight Board adopted the AICPA auditing standards in existence as its interim auditing standards.	
H.	International auditing standards are developed by the International Auditing and Assurance Standards Board.	

69) Auditors must consider the possibility of fraud by employees or management on every audit engagement. They must also consider the possibility that the client has not complied with laws.

(a) Distinguish between employee and management fraud.

(b) Describe the auditors' responsibility for the detection of fraud in an audit.

(c) Describe the auditors' responsibility regarding noncompliance with laws by a client.

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Principles of Auditing & Other Assurance Services, 21e **(Whittington)**
Chapter 2 Professional Standards

1) To express an opinion on financial statements, the auditor obtains reasonable assurance about whether the financial statements as a whole are free from all misstatements, whether due to fraud or error.

Answer: FALSE
Difficulty: 1 Easy
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

2) The auditors' report on a corporation's financial statements usually is addressed to the president of the company.

Answer: FALSE
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

3) For a public company audit, the auditors are primarily responsible for preparing the financial statements and expressing an opinion on whether they follow generally accepted auditing standards.

Answer: FALSE
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

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4) Partners in CPA firms usually have the responsibility for signing the firm's name on the audit report.

Answer: TRUE
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

5) An audit is more likely to detect tax evasion than violations of antitrust laws.

Answer: TRUE
Difficulty: 3 Hard
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Apply
AACSB: Communication
Accessibility: Keyboard Navigation

6) The AICPA *Statements on Attestation Standards* do ***not*** supersede the AICPA *Statements on Auditing Standards*.

Answer: TRUE
Difficulty: 2 Medium
Topic: The Attestation Standards
Learning Objective: 02-06 Describe the attestation standards.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

7) A peer review is generally performed by employees of the AICPA.

Answer: FALSE
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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8) If the auditors discover illegal acts by a client, they must immediately report the act to law enforcement.

Answer: FALSE
Difficulty: 2 Medium
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

9) An audit should be designed to obtain reasonable assurance of detecting non-compliance with all laws.

Answer: FALSE
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

10) The pronouncements of the International Auditing and Assurance Standards Board do ***not*** override the national auditing standards of its members, even when financial statements are issued by a multinational company.

Answer: TRUE
Difficulty: 2 Medium
Topic: International Accounting and Auditing Standards
Learning Objective: 02-08 Explain the status of international accounting and auditing standards and the content of the international audit report.
Bloom's: Understand
AACSB: Communication; Diversity
Accessibility: Keyboard Navigation

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11) Audits of financial statements are designed to obtain reasonable assurance of detecting misstatement due to:

	Fraudulent Financial Reporting	Misappropriation of Assets
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: A
Difficulty: 2 Medium
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

12) Financial statements are prepared following a(an)
A) Applicable financial reporting framework.
B) Appropriate subject matter.
C) Generally accepted auditing standards.
D) Set of quality control standards.

Answer: A
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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13) An attestation engagement:
A) Has as its primary source of standards the assurance standards.
B) Includes a report on subject matter, or on an assertion about subject matter.
C) Includes search and verification procedures for all major accounts.
D) Is ordinarily an examination, review or compilation engagement.

Answer: B
Difficulty: 2 Medium
Topic: The Attestation Standards
Learning Objective: 02-06 Describe the attestation standards.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

14) An audit provides reasonable assurance of detecting which of the following types of material illegal acts?

	Direct Effect	Without a Direct Effect
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: B
Difficulty: 2 Medium
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

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15) Which of the following is ***not*** a type of auditors' opinion?
A) Adverse.
B) Conventional.
C) Qualified.
D) Unmodified.

Answer: B
Difficulty: 1 Easy
Topic: Auditors' Reports
Learning Objective: 02-05 Discuss the other types of reports that are issued by auditors.; 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Remember
AACSB: Communication; Reflective Thinking
Accessibility: Keyboard Navigation

16) Which of the following is one of the elements of AICPA quality control?
A) Assurance of proper levels of association.
B) Due professional care.
C) Human Resources.
D) Supervision.

Answer: C
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

17) A procedure in which a quality control partner periodically tests the application of quality control procedures is most directly related to which quality control element?
A) Engagement performance.
B) Human resources.
C) Leadership responsibilities for quality with the firm.
D) Monitoring.

Answer: D
Difficulty: 3 Hard
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Apply
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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18) An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatements, and a critical assessment of audit evidence is referred to as:
A) Reasonable assurance.
B) Professional skepticism.
C) Audit neutralism.
D) Auditing mindset.

Answer: B
Difficulty: 1 Easy
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

19) Which of the following is a principle underlying an audit conducted in accordance with generally accepted auditing standards?
A) The audit provides reasonable assurance the client will remain in business for at least one year.
B) The audit report expresses an opinion on whether the financial statements are free of material and immaterial misstatement.
C) Auditors are responsible for, among other things, maintaining professional objectivism, exercising professional engagement, and obtaining appropriate documentation.
D) An auditor's opinion enhances the degree of confidence that intended users can place in the financial statements.

Answer: D
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
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20) A set of criteria used to determine measurement, recognition, representation, and disclosure of all material items appearing in the financial statements is referred to as a(n)
A) Financial reporting framework.
B) Public Company Accounting Oversight Board Criteria.
C) Quality control presentation standard.
D) Special purpose audit standard.

Answer: A
Difficulty: 1 Easy
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

21) An audit should be designed to obtain reasonable assurance of detecting material misstatements due to:
A) Errors.
B) Errors and fraud.
C) Errors, fraud, and noncompliance with laws with a direct effect on financial statement amounts and others.
D) Errors, fraud and noncompliance with all laws.

Answer: C
Difficulty: 2 Medium
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
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22) Which of the following is accurate, as indicated in the principles underlying an audit?
A) Management is expected to provide the auditors with all needed evidence prior to the beginning of audit work.
B) An auditor is unable to obtain absolute assurance that the financial statements are free from material misstatement.
C) Auditors are responsible for having appropriate competence to perform the audit without the assistance of outside specialists.
D) Management is responsible for preparing accurate financial statement amounts, while auditors are responsible for auditing those amounts and for preparing note disclosures related to those amounts.

Answer: B
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

23) Which of the following is ***not*** an underlying premise of an audit?
A) Management must provide the auditor with all information relevant to the preparation and fair presentation of the financial statements.
B) Management and the auditors have responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework.
C) Where appropriate, the auditor may obtain information from those charged with governance.
D) The auditors should be provided unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

Answer: B
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Communication
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24) By definition, proper professional skepticism on an audit requires:

	Questioning mind	Subjective assessment of audit evidence
A.	No	No
B.	No	Yes
C.	Yes	No
D.	Yes	Yes

A) Option A
B) Option B
C) Option C
D) Option D

Answer: C
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

25) When a *Statement on Auditing Standards* uses the word "should" relating to a requirement, it means that the auditor:
A) Must fulfill the responsibilities under all circumstances.
B) Must comply with requirements unless the auditor demonstrates and documents that alternative actions are sufficient to achieve the objectives of the standards.
C) Should consider whether to follow the advice based on the exercise of professional judgment in the circumstances.
D) May choose to change responsibilities relating to various professional standards that remain under consideration.

Answer: B
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
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26) An unconditional responsibility to follow an AICPA professional standard exists when the professional standard uses the term(s):

	Must	Should
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: B
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

27) Which of the following best describes a portion of the auditors' responsibility regarding noncompliance with laws by clients?
A) The auditors have a responsibility to discover all material noncompliance.
B) If audit procedures reveal noncompliance, the auditors should take appropriate actions.
C) If the auditors suspect noncompliance, they should conduct a legal audit of the company.
D) The auditors' responsibility for the detection of all noncompliance is the same as their responsibility regarding material misstatements due to errors and fraud.

Answer: B
Difficulty: 2 Medium
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
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28) The auditors who find that the client has committed an illegal act would be most likely to withdraw from the engagement when the:
A) Management fails to take appropriate corrective action.
B) Illegal act has material financial statement implications.
C) Illegal act has received widespread publicity.
D) Auditors cannot reasonably estimate the effect of the illegal act on the financial statements.

Answer: A
Difficulty: 2 Medium
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

29) Which of the following is **not** included as a part of the description of the auditor's responsibility in a nonpublic company unmodified report?
A) The audit was performed in accordance with generally accepted accounting principles.
B) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
C) The procedures selected depend on the auditor's judgment.
D) An audit includes evaluating the appropriateness of accounting policies used.

Answer: A
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
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30) Primary responsibility for the financial statements lies with:

	Auditors	Management
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: C
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

31) Which of the following is explicitly included as a part of the description of management's responsibility in a nonpublic company unmodified audit report?
A) Management is responsible for making a judgment on which misstatements are material vs. immaterial.
B) Management is responsible for providing auditors with all relevant evidence.
C) Management is responsible for the maintenance of internal control.
D) Management is responsible for listing all illegal acts with a direct effect on financial statement amounts and disclosures.

Answer: C
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
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32) The auditors' report for a nonpublic company should indicate:
A) That the audit was made in accordance with auditing standards generally accepted in the United States of America.
B) Any weakness in internal control observed by the auditors.
C) That accounting principles have been consistently applied.
D) That no illegal acts have been identified.

Answer: A
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

33) The Auditing Standards Board's guidance on matters such as the purpose of an audit, the premise of an audit, and auditor personal responsibilities is included in:
A) The professional responsibilities section of the generally accepted auditing standards.
B) The Code of Professional Conduct.
C) Accounting Series Releases.
D) Principles Underlying an Audit Conducted in Accordance with GAAS.

Answer: D
Difficulty: 1 Easy
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

34) A requirement that working papers be reviewed by the supervisor, and any deficiencies be discussed with the preparer is an example of a quality control procedure in the area of:
A) Acceptance and continuance of client relationships and specific engagements.
B) Engagement performance.
C) Human resources.
D) Relevant ethical requirements.

Answer: B
Difficulty: 3 Hard
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Apply
AACSB: Reflective Thinking
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35) A requirement to design recruitment processes and procedures to help the firm select individuals meeting minimum academic requirements established by the firm is an example of a quality control procedure in the area of:
A) Acceptance and continuance of client relationships and specific engagements.
B) Engagement performance.
C) Human resources.
D) Relevant ethical requirements.

Answer: C
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

36) The body that issues international pronouncements providing auditing procedural and reporting guidance is the:
A) International Federation of Auditors.
B) Multinational Reporting Commission.
C) International Auditing and Assurance Standards Board.
D) AICPA Auditing Standards Board.

Answer: C
Difficulty: 1 Easy
Topic: International Accounting and Auditing Standards
Learning Objective: 02-08 Explain the status of international accounting and auditing standards and the content of the international audit report.
Bloom's: Remember
AACSB: Communication; Diversity
Accessibility: Keyboard Navigation

37) To present fairly in conformity with generally accepted accounting principles, the financial statements must:
A) Be consistently applied.
B) Inform users of all matters that could materially affect a decision.
C) Reflect transactions and events within a range of reasonable limits.
D) Be considered preferable to the users of those financial statements.

Answer: C
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
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38) Which of the following is **not** included in the auditors' standard unmodified audit report for a nonpublic company?
A) The procedures selected by the auditor depend on the auditor's judgment.
B) An audit includes evaluating the appropriateness of accounting policies used.
C) An audit includes evaluating the overall presentation of the financial statements.
D) Preferred accounting principles have been consistently applied.

Answer: D
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

39) An audit performed in accordance with generally accepted auditing standards should:
A) Be expected to provide absolute assurance that noncompliance with all laws will be detected where internal control is effective.
B) Be relied upon to disclose violations of truth in lending laws.
C) Encompass a plan to actively search for all illegalities which relate to operating aspects.
D) Not be relied upon to provide absolute assurance that all noncompliance with laws will be detected.

Answer: D
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
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40) When the auditors express an opinion on financial statements, their responsibilities extend to:
A) The underlying wisdom of their client's management decisions.
B) Whether the results of their client's operating decisions are fairly presented in the financial statements.
C) Active participation in the implementation of the advice given to their client.
D) An ongoing responsibility for their client's solvency.

Answer: B
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

41) Authoritative GAAP Sources include:

	FASB Remediation Statements	FASB Codification
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: C
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication
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42) An investor reading the financial statements of The Fairbury Corporation observes that the statements are accompanied by an unmodified auditors' report. From this, the investor may conclude that:
A) Any disputes over significant accounting issues have been settled to the auditors' satisfaction.
B) The auditors are satisfied that Fairbury is operationally efficient.
C) The auditors have ascertained that Fairbury's financial statements are free from error.
D) Informative disclosures in the financial statements but not necessarily in the footnotes are to be regarded as reasonably adequate.

Answer: A
Difficulty: 3 Hard
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Apply
AACSB: Communication
Accessibility: Keyboard Navigation

43) A nonpublic company auditors' report is most likely to be addressed to the company whose financial statements are being examined or to that company's:
A) Chief operating officer.
B) President.
C) Audit Committee.
D) Chief financial officer.

Answer: C
Difficulty: 1 Easy
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Remember
AACSB: Communication
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44) Which of the following best describes what is meant by generally accepted auditing standards?
A) Acts to be performed by the auditors.
B) Measures of the quality of the auditors' performance.
C) Procedures to be used to gather evidence to support financial statements.
D) Audit objectives generally determined on audit engagements.

Answer: B
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

45) If noncompliance with a law is discovered during the audit of a publicly held company, the auditors should first:
A) Notify the regulatory authorities.
B) Determine who was responsible for the noncompliance.
C) Intensify the examination to identify noncompliance with any laws.
D) Report the act to those in charge of governance within the client's organization.

Answer: D
Difficulty: 2 Medium
Topic: The Auditors' Responsibility for Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

46) Which of the following is not a service included in the attestation subject matter standard?
A) Compliance attestation.
B) Financial forecasts and projections.
C) Historical financial statement examination.
D) Service organization controls.

Answer: C
Difficulty: 1 Easy
Topic: The Attestation Standards
Learning Objective: 02-06 Describe the attestation standards.
Bloom's: Remember
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47) Which of the following statements best describes the primary purpose of Statements on Auditing Standards?
A) They are guides intended to set forth auditing procedures which are applicable to a variety of situations.
B) They are procedural outlines which are intended to narrow the areas of inconsistency and divergence of auditor opinion.
C) They are authoritative statements, enforced through the Code of Professional Conduct.
D) They are interpretations which may be useful guidance to auditors.

Answer: C
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

48) The primary responsibility for the adequacy of disclosure in the financial statements of a publicly held company rests with the:
A) Partner assigned to the audit engagement.
B) Management of the company.
C) Auditor in charge of the fieldwork.
D) Securities and Exchange Commission.

Answer: B
Difficulty: 1 Easy
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Remember
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49) Within the context of quality control, the primary purpose of continuing professional education and training activities is to enable a CPA firm to provide personnel within the firm with:
A) Technical training that assures proficiency as an auditor.
B) Professional education that is required in order to perform with due professional care.
C) Knowledge required to fulfill assigned responsibilities and to progress within the firm.
D) Knowledge required in order to perform a peer review.

Answer: C
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

50) In pursuing a CPA firm's quality control objectives, a CPA firm may maintain records indicating which partners or employees of the CPA firm were previously employed by the CPA firm's clients. Which quality control objective would this be most likely to satisfy?
A) Acceptance and continuance of clients and engagements.
B) Engagement performance.
C) Personnel management.
D) Relevant ethical requirements.

Answer: D
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
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51) A CPA firm establishes quality control policies and procedures for deciding whether to accept a new client or continue to perform services for a current client. The primary purpose for establishing such policies and procedures is:
A) To enable the auditor to attest to the integrity or reliability of a client.
B) To comply with the quality control standards established by regulatory bodies.
C) To minimize the likelihood of association with clients whose managements lack integrity.
D) To lessen the exposure to litigation resulting from failure to detect fraud in client financial statements.

Answer: C
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

52) Which of the following is not an element of quality control?
A) Documentation.
B) Engagement performance.
C) Monitoring.
D) Relevant ethical requirements.

Answer: A
Difficulty: 1 Easy
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

53) Generally accepted auditing standards established by the AICPA through April of 2003:
A) Were accepted as interim standards by the Public Company Accounting Oversight Board.
B) Provide accounting guidance for nonpublic companies.
C) Were also adopted as international auditing standards at that date.
D) Are now developed by the Securities and Exchange Commission.

Answer: A
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
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54) The Public Company Accounting Oversight Board has authority to establish which of the following relating to public companies?

	Attestation Standards	Independence Standards
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: A
Difficulty: 2 Medium
Topic: The Attestation Standards; AICPA Generally Accepted Auditing Standards
Learning Objective: 02-06 Describe the attestation standards.; 02-01 Describe the authority of the two types of auditing standards in effect in the United States—AICPA generally accepted auditing standards and PCAOB standards.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

55) Which of the following is least likely to be directly examined in an inspection performed by the PCAOB?
A) Audit engagements.
B) Review engagements.
C) Compilation engagements.
D) CPA firm quality control system.

Answer: C
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
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56) Which of the following is not an element of quality control?
A) Monitoring.
B) Independence.
C) Human resources.
D) Engagement performance.

Answer: B
Difficulty: 2 Medium
Topic: International Standards
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

57) A peer review in which the peer reviewers study and appraise a CPA firm's system of quality control to perform accounting and auditing work is referred to as a(n):
A) Engagement review.
B) Inspection review.
C) Supervision review.
D) System review.

Answer: D
Difficulty: 1 Easy
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

58) An engagement review form of peer review is ***least*** likely to include a peer reviewer's detailed analysis of:
A) Compilation reports.
B) Documentation of procedures followed on a review.
C) Overall system of quality control.
D) Review reports.

Answer: C
Difficulty: 2 Medium
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
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59) Of the following, which are current types of peer reviews?

	System Reviews	Engagement Reviews
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: A
Difficulty: 1 Easy
Topic: Quality Control in CPA Firms
Learning Objective: 02-07 Describe the quality control standards and their purposes.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

60) Which of the following types of audits are ordinarily performed following generally accepted auditing standards?

	Public Company Audit	Nonpublic Company Audit
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: C
Difficulty: 2 Medium
Topic: AICPA Generally Accepted Auditing Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.
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61) An audit opinion that states that the financial statements are not fairly presented is referred to as a(n)
A) Adverse opinion.
B) Limited assurance opinion.
C) Negative opinion.
D) Unqualified opinion.

Answer: A
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-05 Discuss the other types of reports that are issued by auditors.
Bloom's: Understand
AACSB: Communication; Reflective Thinking
Accessibility: Keyboard Navigation

62) The public company audit report is most likely to have a section with the title of:
A) Critical Audit Matters.
B) Management Responsibilities.
C) Shareholder Responsibilities.
D) Type of Conclusion.

Answer: A
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Understand
AACSB: Communication; Reflective Thinking
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63) Ordinarily, a public company audit report must be addressed to:

	Board of Directors	Shareholders
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A) Option A
B) Option B
C) Option C
D) Option D

Answer: A
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Remember
AACSB: Communication; Reflective Thinking
Accessibility: Keyboard Navigation

64) The order of presentation of sections in a public company financial statement audit report is:
A) Basis for Opinion, Critical Audit Matters, Opinion.
B) Basis for Opinion, Opinion, Critical Audit Matters.
C) Critical Audit Matters, Basis for Opinion, Opinion.
D) Opinion, Basis for Opinion, Critical Audit Matters.

Answer: D
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Remember
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65) Which of the following is most likely to be included in a public company financial statement audit report?
A) Adverse opinion.
B) The name of the engagement partner.
C) The audit was performed in accordance with generally accepted auditing standards.
D) The year the auditor began serving the company.

Answer: D
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Remember
AACSB: Communication; Reflective Thinking
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66) A public company's audit report must be addressed to the board of directors and the
A) Audit committee.
B) Company itself.
C) President.
D) Shareholders.

Answer: D
Difficulty: 1 Easy
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
Bloom's: Remember
AACSB: Communication
Accessibility: Keyboard Navigation

67) Which of the following is least likely to be included as a titled section in a standard unqualified public company audit report?
A) Basis for opinion section.
B) Critical audit matters section.
C) Management responsibilities section.
D) Opinion section.

Answer: C
Difficulty: 2 Medium
Topic: Auditors' Reports
Learning Objective: 02-04 Explain the key elements of the auditors' nonpublic and public company standard audit reports.
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68) Indicate whether you agree or disagree with the following statements concerning a financial statement audit conducted in accordance with generally accepted auditing standards.

	Statement	
A.	Public companies are ordinarily audited by a CPA firm, with engagement review by the General Accounting Office.	
B.	Audits provide absolute assurance of detecting material misstatements and reasonable assurance of detecting immaterial misstatements.	
C.	For audit purposes, professional skepticism includes a questioning mind and a critical assessment of audit evidence and should be maintained throughout the planning and performance of an audit.	
D.	The Auditing Standards Board issues accounting principles for nonpublic company audits, while the Public Company Accounting Oversight Board issues accounting principles for public company audits.	
E.	Auditors have a higher responsibility for detecting noncompliance with laws affecting financial statement amounts and disclosures than they do for other laws.	
F.	When an auditing standard uses the word "should," this indicates that the auditor must in all cases follow it if the requirement is relevant to the company being audited.	
G.	At one point, the Public Company Oversight Board adopted the AICPA auditing standards in existence as its interim auditing standards.	
H.	International auditing standards are developed by the International Auditing and Assurance Standards Board.	

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Answer:

	Statement	
A.	Public companies are ordinarily audited by a CPA firm, with engagement review by the General Accounting Office.	Disagree
B.	Audits provide absolute assurance of detecting material misstatements and reasonable assurance of detecting immaterial misstatements.	Disagree
C.	For audit purposes, professional skepticism includes a questioning mind and a critical assessment of audit evidence and should be maintained throughout the planning and performance of an audit.	Agree
D.	The Auditing Standards Board issues accounting principles for nonpublic company audits, while the Public Company Accounting Oversight Board issues accounting principles for public company audits.	Disagree
E.	Auditors have a higher responsibility for detecting noncompliance with laws affecting financial statement amounts and disclosures than they do for other laws.	Agree
F.	When an auditing standard uses the word "should," this indicates that the auditor must in all cases follow it if the requirement is relevant to the company being audited.	Disagree
G.	At one point, the Public Company Oversight Board adopted the AICPA auditing standards in existence as its interim auditing standards.	Agree
H.	International auditing standards are developed by the International Auditing and Assurance Standards Board.	Agree

Difficulty: 2 Medium
Topic: Detecting Misstatements; AICPA Generally Accepted Auditing Standards; International Standards
Learning Objective: 02-02 Identify the nature and underlying principles of generally accepted auditing standards.; 02-08 Explain the status of international accounting and auditing standards and the content of the international audit report.; 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
AACSB: Communication; Diversity; Reflective Thinking
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69) Auditors must consider the possibility of fraud by employees or management on every audit engagement. They must also consider the possibility that the client has not complied with laws.

(a) Distinguish between employee and management fraud.

(b) Describe the auditors' responsibility for the detection of fraud in an audit.

(c) Describe the auditors' responsibility regarding noncompliance with laws by a client.

Answer:
(a) Employee fraud is dishonest actions by lower level employees that occur within a company despite management's efforts to prevent such actions. Management fraud occurs when the top executives of a company deliberately deceive stockholders, creditors, and the auditors by misstating the financial statements.

(b) The auditors have a responsibility to design the audit to provide reasonable assurance of detecting material errors and fraud and to conduct the audit with due care and professional skepticism.

(c) An audit cannot be relied upon to detect all noncompliance with laws by the client. For laws which have a direct and material effect on the financial statement amounts, the responsibility for detection is the same as that for errors and fraud-that is to design the audit to provide reasonable assurance of detection. For other laws (those having an indirect effect on the financial statement amounts), an audit does not provide reasonable assurance of detection.
Difficulty: 2 Medium
Topic: Detecting Misstatements
Learning Objective: 02-03 Discuss the auditors' responsibility for detecting errors, fraud, and noncompliance with laws and regulations.
Bloom's: Understand
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