Auditing and Assurance Services 11th edition Messier Test Bank

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Auditing & Assurance Services: A Systematic Approach, 11e **(Messier)**
Chapter 2 The Financial Statement Auditing Environment

1) A series of business and related auditing failures led to the passage of the Sarbanes-Oxley Act (2002).

2) The primary audit context with which an auditor is concerned is the auditee's industry or business.

3) The audit committee generally includes senior executives of the organization.

4) A financial statement audit is generally organized based on the five basic business processes or cycles.

5) One of the five basic business processes is the warehousing cycle.

6) The ASB's auditing standards contain a preface that includes *Principles Underlying an Audit Conducted in Accordance with GAAS*.

7) PCAOB auditing standards must be followed on all financial statement audits performed in the U.S.

8) A financial statement audit must be conducted based on GAAP.

9) Generally, the financial statements of U.S. companies must be prepared based on GAAP.

10) PCAOB auditing standards must be followed on all audits of public companies' financial statements.

11) The Audit Committee consists of:
A) members of management.
B) a subcommittee of the AICPA who establish the SAS.
C) members of the Board of Directors.
D) appointed government overseers.

12) What organization is responsible for setting auditing standards for audits of publicly-traded companies in the U.S.?
A) AICPA.
B) FASB.
C) GASB.
D) PCAOB.

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13) The Public Company Accounting Oversight Board's role is to:
A) conduct the final review of auditors' work before the auditor's opinion is issued.
B) oversee the auditors of public companies in order to protect the interests of investors.
C) conduct audits of governmental entities.
D) sanction auditors who fail to follow GAAS.

14) The authoritative body designed to promulgate standards concerning a CPA's association with audited financial statements of an entity that is required to file financial statements with the SEC is the:
A) financial accounting standards board.
B) general accounting office.
C) public company accounting oversight board.
D) auditing standards board.

15) The auditor must be independent of the auditee unless:
A) the lack of independence does not influence his or her professional judgment.
B) both parties agree that the independence issue is not a problem.
C) the lack of independence is insignificant.
D) none of the above—the auditor cannot lack independence.

16) Which principle of the *Principles Underlying an Audit Conducted in Accordance with GAAS* describes where auditors are required to plan the work and properly supervise any assistants?
A) Purpose of an Audit and Premise upon which an Audit is Conducted.
B) Performance.
C) Reporting.
D) Responsibilities.

17) Which of the following best describes the general character of the three principles that are listed in the Performance section of the *Principles Underlying an Audit Conducted in Accordance with GAAS*?
A) The purpose and value of a financial statement audit and lays out the responsibilities of management for an effective audit to be possible.
B) The fundamental responsibilities and characteristics of an auditor.
C) Auditors' responsibilities in performing an effective audit.
D) Auditors provide a written report that expresses their opinion about the financial statements.

18) The Responsibilities section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* states that auditors are responsible for having appropriate competence and:
A) independence with respect to the financial statements and supplementary disclosures.
B) exercising professional care as judged by peer reviewers.
C) capabilities to perform the audit.
D) objectivity as an auditor as verified by proper supervision.

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19) The Reporting section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* requires that the report, "states whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework." This passage requires:
A) a statement of fact by the auditor.
B) an opinion by the auditor.
C) an implied measure of fairness.
D) an objective measure of compliance.

20) 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 cynicism.
B) independent differentialism.
C) professional skepticism.
D) impartial conservatism.

21) The accuracy of information included in footnotes accompanying the audited financial statements issued by a company whose shares are traded on a stock exchange is the primary responsibility of:
A) the stock exchange officials.
B) the independent auditor.
C) the company's management.
D) the securities and exchange commission.

22) The primary responsibility for the adequacy of disclosures 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.

23) The largest public accounting firms typically are structured as:
A) subchapter S corporations.
B) professional corporations.
C) limited liability partnerships.
D) limited liability corporations.

24) Typically, an external auditor first gets supervisory experience at what level of authority?
A) Associate.
B) Senior.
C) Manager.
D) Partner.

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25) An "in-charge" auditor typically holds the rank of:
A) associate.
B) senior.
C) manager.
D) partner.

26) Which of the following best describes the concept of risk assessment on which auditors can provide independent assurance?
A) The risk that financial statements are misstated because of fraud.
B) The risk that financial statements are misstated because of error or fraud.
C) Whether management has systems in place to evaluate and effectively manage the entity's business risks.
D) Developing client acceptance and continuance practices that minimize the likelihood of lawsuits against the auditor.

27) Forensic audits include all of the following except:
A) criminal investigations.
B) manufacturers' assertions about product quality.
C) employee fraud.
D) management fraud.

28) A typical objective of an operational audit is for the auditor to:
A) determine whether the financial statements present fairly the entity's operations.
B) evaluate the feasibility of attaining the entity's operational objectives.
C) make recommendations for improving performance.
D) report on the entity's relative success in attaining profit maximization.

29) Governmental auditing often extends beyond examinations leading to the expression of an opinion on the fairness of financial presentation and includes audits of efficiency, effectiveness, and:
A) monetary stimulus.
B) evaluation.
C) accuracy.
D) compliance.

30) External auditors are referred to as "external" because:
A) they report to users outside of the audited entity.
B) they are paid by parties outside of the audited entity.
C) they are not employees of the entity being audited.
D) their offices are not at the entity's place of business.

31) Which is NOT an attribute of an external auditor?
A) Independence.
B) Auditee advocacy.
C) Objectivity.
D) Concern for the public interest.

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32) What is the general character of the work conducted in performing a forensic audit for a company?
A) Providing assurance that the financial statements are not materially misstated.
B) Detecting or deterring fraudulent activity.
C) Offering an opinion on the reliability of the specific assertions made by management.
D) Identifying the causes of an entity's financial difficulties.

33) Which of the following is NOT a requirement of the Sarbanes-Oxley Act?
A) Audit firms cannot provide most types of nonaudit services to their public company auditees.
B) Audit firms are required to rotate audit partners off audit engagements every five years for public company audits.
C) Firms that audit public companies are subject to inspection by the PCAOB.
D) A certain number of hours, which is based on the size of the company being audited, must be spent on each audit engagement.

34) A CPA is most likely to refer to one or more of the items listed in the Responsibilities section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* in determining:
A) the nature of the CPA's report qualification.
B) the scope of the CPA's auditing procedures.
C) requirements for the review of the entity and its environment.
D) whether the CPA should undertake an audit engagement.

35) Who bears ultimate responsibility for the financial statements?
A) Management of the organization, equally with the external auditor that audits the statements.
B) Management and the shareholders of the organization.
C) The external auditor that audits the statements.
D) Management of the organization.

36) The Responsibilities section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* is concerned with:
A) proper planning and supervision, appropriate materiality levels, and sufficient appropriate audit evidence.
B) an audit opinion in accordance with the auditor's findings, whether the financials are presented fairly, and whether the financial are in accordance with the applicable financial reporting framework.
C) whether the auditor has unrestricted access to those within the entity from whom the auditor needs to obtain audit evidence.
D) complying with ethical requirement, appropriate competence and maintaining professional skepticism.

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37) The Responsibilities section of *Principles Underlying an Audit Conducted in Accordance with GAAS* recognizes that regardless of how capable an individual may be in other fields, the individual cannot meet the requirements of the auditing standards without the proper:
A) business and finance courses.
B) quality control and peer review.
C) education and experience in auditing.
D) supervision and review skills.

38) The main difference between SAS and AU is:
A) they are the same except that SAS are organized chronologically and the AU are organized by topical area.
B) SAS are issued by the ASB and AU are issued by the PCAOB.
C) SAS are issued by the PCAOB and AU are issued by the ASB.
D) SAS define minimum standards of performance for auditors while AU define financial accounting principles that must be followed according to GAAP.

39) The AICPA's Statements on Auditing Standards can be described as:
A) providing very specific guidance about the specific activities an auditor must perform on each engagement.
B) similar to financial accounting standards in that they are developed by the government.
C) tend to be general in nature and require a great deal of professional judgment.
D) providing assurance that an auditor will not issue an incorrect opinion.

40) Due professional care requires auditors to:
A) obtain independent, third party (non-auditee) documentation as evidence for all information presented in the financial statements.
B) exercise professional skepticism during the audit.
C) disregard any evidence generated by the auditee during the audit.
D) find every error contained in the financial statements prepared by management.

41) The objectives of the Reporting section of *Principles Underlying an Audit Conducted in Accordance with GAAS* are to provide assurance and include all of the following except for:
A) an opinion statement of whether the financial statements present fairly.
B) an opinion statement of whether the financials are free of material misstatements.
C) an opinion statement of whether the financials are in accordance with an applicable financial reporting framework.
D) an opinion statement of whether the financial statements between periods are not materially affected by changes in accounting principles that are not disclosed.

42) An internal auditor is likely to be more concerned with _____ than the external auditor.
A) internal administrative procedures
B) cost accounting procedures
C) the efficiency of operations
D) internal control

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43) Which of the following is NOT included in the broad category of assurance services?
A) Operational audit.
B) Reporting on internal control.
C) Accounting or review services.
D) Evaluation of the auditee's risk management framework.

44) Which of the following is NOT explicitly a part of the IIA's definition of internal auditing?
A) Internal auditing is an objective assurance activity.
B) Internal auditing is a consulting activity.
C) Internal auditing should help an organization accomplish its objectives.
D) Internal auditors should help external auditors complete the annual financial statement audit.

45) Which of the following statements regarding the PCAOB is incorrect?
A) It is a public-sector, nonprofit corporation.
B) It is overseen by the SEC.
C) It sets standards for public company audits.
D) It has delegated all of its standard-setting authority to the AICPA.

46) Due professional care requires:
A) auditors to maintain an attitude that includes a questioning mind and a critical assessment of audit evidence.
B) the examination of all available corroborating evidence.
C) the exercise of error-free judgment.
D) a study and review of internal controls that includes tests of controls.

47) Which of the following best describes the role of corporate governance?
A) Management decides which accounting principles are the most appropriate.
B) Shareholders vote to decide who should be members of the board of directors.
C) Holding the management team accountable to shareholders and other constituents for the utilization of the entity's resources.
D) Management often is compensated based on the company's profitability.

48) The Performance section of *Principles Underlying an Audit Conducted in Accordance with GAAS* states that the auditor is unable to obtain absolute assurance that the financials are free of material misstatements because of inherent limitations which arise from all of the following except:
A) the presentation of the financial statements based on GAAS.
B) the nature of financial reporting.
C) the nature of audit procedures.
D) the need for the audit to be conducted within a reasonable period of time and so as to achieve a balance between benefit and cost.

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

50) The 'Purpose of an Audit and Premise upon which an Audit is Conducted' section of *Principles Underlying an Audit Conducted in Accordance with GAAS* states that management is responsible for all the following except for:
A) the preparation and fair presentation of the financial statement in accordance with the applicable financial reporting framework.
B) the design, implementation, and maintenance of internal control.
C) providing financial statement users with an opinion on whether the financial statements present fairly.
D) ensuring that the financial statements are free from material misstatement, whether due to error or fraud.

51) The Performance section of *Principles Underlying an Audit Conducted in Accordance with GAAS* states that for auditors to obtain reasonable assurance, they need to do all of the following except:
A) make sure all audit team members have adequate training.
B) obtain sufficient appropriate audit evidence.
C) identify and assess risks of material misstatement.
D) determine and apply appropriate materiality levels.

52) The Reporting section of *Principles Underlying an Audit Conducted in Accordance with GAAS* requires the auditor's report to contain either an expression of opinion regarding the financial statements taken as a whole or an assertion to the effect that an opinion cannot be expressed. The objective of this requirement is to prevent:
A) an auditor from reporting on one basic financial statement and not the others.
B) an auditor from expressing different opinions on each of the basic financial statements.
C) management from reducing its final responsibility for the basic financial statements.
D) misinterpretations regarding the degree of responsibility the auditor is assuming.

53) The Performance section of the "Principles Underlying an Audit" is concerned with:
A) proper planning and supervision, appropriate materiality levels, and sufficient appropriate audit evidence.
B) an audit opinion in accordance with the auditor's findings, whether the financials are presented fairly, and whether the financial are in accordance with the applicable financial reporting framework.
C) whether the auditor has unrestricted access to those within the entity from whom the auditor needs to obtain audit evidence.
D) complying with ethical requirement, appropriate competence and maintaining professional skepticism.

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54) The Reporting section of the "Principles Underlying an Audit" is concerned with:
A) proper planning and supervision, appropriate materiality levels, and sufficient appropriate audit evidence.
B) the auditor expressing an audit opinion in accordance with the auditor's findings, whether the financials are presented fairly, and whether the financial are in accordance with the applicable financial reporting framework.
C) whether the auditor has unrestricted access to those within the entity from whom the auditor needs to obtain audit evidence.
D) complying with ethical requirements, appropriate competence and maintaining professional skepticism.

55) The IAASB and the ASB have collaborated on the principles underlying an audit conducted in accordance with generally accepted auditing standards. These principles are grouped into four categories. What are the four categories?

56) The principles underlying an audit conducted in accordance with generally accepted auditing standards are grouped into four categories. The second category is that of "personal responsibility of the auditor." Generally explain what is intended by this principle.

57) You are the owner of a small grocery store, Corner Marketplace. Explain the five process categories and how they apply to your business.

58) Define corporate governance, the board of directors, and the audit committee and explain how they relate to each other.

59) Describe the organizations involved in standard setting for auditors in the United States and what their respective roles are in setting current auditing standards for companies in the United States.

60) What are the four things required of an auditor to obtain reasonable assurance that are outlined in the Performance section of the *Principles Underlying an Audit Conducted in Accordance with GAAS*?

61) Jane Goodperson performed an audit on the Quagmire Corporation and issued an unqualified opinion. Jane performed the audit with due professional care and in accordance with generally accepted auditing standards. Two months after the report is issued, Jane discovers on the news that the CEO of Quagmire, Johnny Best, had been stealing small amounts of inventory. The amount, however, is immaterial compared to the overall inventory of the corporation. Jane soon receives a call from Quagmire's CFO, Mark Beastly. Mark wants Jane to refund her audit fees. Mark thinks Jane did not properly perform the audit, as she did not discover this fraud. Further, he feels that now Quagmire's financial statements are not fairly stated because of Jane. How should Jane respond to this claim?

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62) Mike has just graduated from State University with a bachelor's degree in accounting. He would like to pursue a career in auditing. What options does Mike have? Describe three auditing career options, including a description of the organization Mike would work for.

63) With respect to an entity's financial statements, describe both the responsibility of management and that of the auditor.

64) What auditing standards are used to conduct an audit for a privately-held corporation? What auditing standards are used to conduct an audit for a publicly-traded corporation? What organization is responsible for setting each of these sets of standards?

65) There are several types of audit services that are provided by auditors. Identify and define three of these types of audits.

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Chapter 2 The Financial Statement Auditing Environment

1) A series of business and related auditing failures led to the passage of the Sarbanes-Oxley Act (2002).

Answer: TRUE
Difficulty: 1 Easy
Topic: A Decade of Challenge and Change for Financial Statement Auditors
Learning Objective: 02-04 Understand the significant changes that have taken place in the auditing profession over the past two decades.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Measurement

2) The primary audit context with which an auditor is concerned is the auditee's industry or business.

Answer: TRUE
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-06 Recognize that an audit is shaped by the auditee's business, industry, and economic environment and understand the essential components and processes characteristic of most business entities.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Decision Making

3) The audit committee generally includes senior executives of the organization.

Answer: FALSE
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-06 Recognize that an audit is shaped by the auditee's business, industry, and economic environment and understand the essential components and processes characteristic of most business entities.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Reporting

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4) A financial statement audit is generally organized based on the five basic business processes or cycles.

Answer: TRUE
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-07 Be familiar with a five-component model of business processes used to organize an audit.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Decision Making

5) One of the five basic business processes is the warehousing cycle.

Answer: FALSE
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-07 Be familiar with a five-component model of business processes used to organize an audit.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Decision Making

6) The ASB's auditing standards contain a preface that includes *Principles Underlying an Audit Conducted in Accordance with GAAS*.

Answer: TRUE
Difficulty: 1 Easy
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

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7) PCAOB auditing standards must be followed on all financial statement audits performed in the U.S.

Answer: FALSE
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Reporting

8) A financial statement audit must be conducted based on GAAP.

Answer: FALSE
Difficulty: 1 Easy
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Reporting

9) Generally, the financial statements of U.S. companies must be prepared based on GAAP.

Answer: TRUE
Difficulty: 1 Easy
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Reporting

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10) PCAOB auditing standards must be followed on all audits of public companies' financial statements.

Answer: TRUE
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

11) The Audit Committee consists of:
A) members of management.
B) a subcommittee of the AICPA who establish the SAS.
C) members of the Board of Directors.
D) appointed government overseers.

Answer: C
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-06 Recognize that an audit is shaped by the auditee's business, industry, and economic environment and understand the essential components and processes characteristic of most business entities.
Bloom's: Remember
AACSB: Analytical Thinking
AICPA: FN Measurement; BB Critical Thinking

12) What organization is responsible for setting auditing standards for audits of publicly-traded companies in the U.S.?
A) AICPA.
B) FASB.
C) GASB.
D) PCAOB.

Answer: D
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

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13) The Public Company Accounting Oversight Board's role is to:
A) conduct the final review of auditors' work before the auditor's opinion is issued.
B) oversee the auditors of public companies in order to protect the interests of investors.
C) conduct audits of governmental entities.
D) sanction auditors who fail to follow GAAS.

Answer: B
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

14) The authoritative body designed to promulgate standards concerning a CPA's association with audited financial statements of an entity that is required to file financial statements with the SEC is the:
A) financial accounting standards board.
B) general accounting office.
C) public company accounting oversight board.
D) auditing standards board.

Answer: C
Difficulty: 1 Easy
Topic: A Model of Business
Learning Objective: 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

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15) The auditor must be independent of the auditee unless:
A) the lack of independence does not influence his or her professional judgment.
B) both parties agree that the independence issue is not a problem.
C) the lack of independence is insignificant.
D) none of the above—the auditor cannot lack independence.

Answer: D
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Apply
AACSB: Analytical Thinking
AICPA: BB Legal; FN Decision Making

16) Which principle of the *Principles Underlying an Audit Conducted in Accordance with GAAS* describes where auditors are required to plan the work and properly supervise any assistants?
A) Purpose of an Audit and Premise upon which an Audit is Conducted.
B) Performance.
C) Reporting.
D) Responsibilities.

Answer: D
Difficulty: 1 Easy
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Analytical Thinking
AICPA: FN Decision Making; BB Resource Management

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17) Which of the following best describes the general character of the three principles that are listed in the Performance section of the *Principles Underlying an Audit Conducted in Accordance with GAAS*?
A) The purpose and value of a financial statement audit and lays out the responsibilities of management for an effective audit to be possible.
B) The fundamental responsibilities and characteristics of an auditor.
C) Auditors' responsibilities in performing an effective audit.
D) Auditors provide a written report that expresses their opinion about the financial statements.

Answer: C
Difficulty: 1 Easy
Topic: Auditing Standards; Auditing, Ethics, and the Code of Professional Conduct
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."; 02-12 Understand that the auditing profession places a premium on ethical behavior and is governed by a Code of Professional Conduct.
Bloom's: Understand
AACSB: Analytical Thinking
AICPA: BB Legal; FN Decision Making

18) The Responsibilities section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* states that auditors are responsible for having appropriate competence and:
A) independence with respect to the financial statements and supplementary disclosures.
B) exercising professional care as judged by peer reviewers.
C) capabilities to perform the audit.
D) objectivity as an auditor as verified by proper supervision.

Answer: C
Difficulty: 1 Easy
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19) The Reporting section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* requires that the report, "states whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework." This passage requires:
A) a statement of fact by the auditor.
B) an opinion by the auditor.
C) an implied measure of fairness.
D) an objective measure of compliance.

Answer: B
Difficulty: 1 Easy
Topic: Auditing Standards
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20) 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 cynicism.
B) independent differentialism.
C) professional skepticism.
D) impartial conservatism.

Answer: C
Difficulty: 2 Medium
Topic: Auditing, Ethics, and the Code of Professional Conduct; Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-12 Understand that the auditing profession places a premium on ethical behavior and is governed by a Code of Professional Conduct.; 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Apply
AACSB: Analytical Thinking
AICPA: BB Legal; FN Risk Analysis

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Auditing and Assurance Services 11th edition Messier Test Bank

21) The accuracy of information included in footnotes accompanying the audited financial statements issued by a company whose shares are traded on a stock exchange is the primary responsibility of:
A) the stock exchange officials.
B) the independent auditor.
C) the company's management.
D) the securities and exchange commission.

Answer: C
Difficulty: 1 Easy
Topic: Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

22) The primary responsibility for the adequacy of disclosures 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: Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

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23) The largest public accounting firms typically are structured as:
A) subchapter S corporations.
B) professional corporations.
C) limited liability partnerships.
D) limited liability corporations.

Answer: C
Difficulty: 1 Easy
Topic: Accounting Firms and Audit Teams
Learning Objective: 02-03 Understand the organization of public accounting firms and the composition of audit teams.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Research

24) Typically, an external auditor first gets supervisory experience at what level of authority?
A) Associate.
B) Senior.
C) Manager.
D) Partner.

Answer: B
Difficulty: 1 Easy
Topic: Accounting Firms and Audit Teams
Learning Objective: 02-03 Understand the organization of public accounting firms and the composition of audit teams.
Bloom's: Remember
AACSB: Communication
AICPA: FN Measurement; BB Resource Management

25) An "in-charge" auditor typically holds the rank of:
A) associate.
B) senior.
C) manager.
D) partner.

Answer: B
Difficulty: 1 Easy
Topic: Accounting Firms and Audit Teams
Learning Objective: 02-03 Understand the organization of public accounting firms and the composition of audit teams.
Bloom's: Remember
AACSB: Communication
AICPA: FN Measurement; BB Resource Management

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26) Which of the following best describes the concept of risk assessment on which auditors can provide independent assurance?
A) The risk that financial statements are misstated because of fraud.
B) The risk that financial statements are misstated because of error or fraud.
C) Whether management has systems in place to evaluate and effectively manage the entity's business risks.
D) Developing client acceptance and continuance practices that minimize the likelihood of lawsuits against the auditor.

Answer: C
Difficulty: 1 Easy
Topic: Types of Other Audit, Attest, and Assurance Services
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.
Bloom's: Apply
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Risk Analysis

27) Forensic audits include all of the following except:
A) criminal investigations.
B) manufacturers' assertions about product quality.
C) employee fraud.
D) management fraud.

Answer: B
Difficulty: 1 Easy
Topic: Types of Other Audit, Attest, and Assurance Services
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.
Bloom's: Understand
AACSB: Communication
AICPA: BB Industry; FN Leveraging Technology

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28) A typical objective of an operational audit is for the auditor to:
A) determine whether the financial statements present fairly the entity's operations.
B) evaluate the feasibility of attaining the entity's operational objectives.
C) make recommendations for improving performance.
D) report on the entity's relative success in attaining profit maximization.

Answer: C
Difficulty: 1 Easy
Topic: Types of Other Audit, Attest, and Assurance Services
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Leveraging Technology

29) Governmental auditing often extends beyond examinations leading to the expression of an opinion on the fairness of financial presentation and includes audits of efficiency, effectiveness, and:
A) monetary stimulus.
B) evaluation.
C) accuracy.
D) compliance.

Answer: D
Difficulty: 1 Easy
Topic: Types of Other Audit, Attest, and Assurance Services
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Leveraging Technology

30) External auditors are referred to as "external" because:
A) they report to users outside of the audited entity.
B) they are paid by parties outside of the audited entity.
C) they are not employees of the entity being audited.
D) their offices are not at the entity's place of business.

Answer: C
Difficulty: 1 Easy
Topic: Types of Auditors
Learning Objective: 02-01 Be familiar with the different types of auditors.
Bloom's: Understand
AACSB: Communication
AICPA: BB Industry; FN Decision Making

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31) Which is NOT an attribute of an external auditor?
A) Independence.
B) Auditee advocacy.
C) Objectivity.
D) Concern for the public interest.

Answer: B
Difficulty: 1 Easy
Topic: Types of Auditors
Learning Objective: 02-01 Be familiar with the different types of auditors.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Decision Making

32) What is the general character of the work conducted in performing a forensic audit for a company?
A) Providing assurance that the financial statements are not materially misstated.
B) Detecting or deterring fraudulent activity.
C) Offering an opinion on the reliability of the specific assertions made by management.
D) Identifying the causes of an entity's financial difficulties.

Answer: B
Difficulty: 1 Easy
Topic: Types of Other Audit, Attest, and Assurance Services
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.
Bloom's: Understand
AACSB: Communication
AICPA: BB Industry; FN Leveraging Technology

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33) Which of the following is NOT a requirement of the Sarbanes-Oxley Act?
A) Audit firms cannot provide most types of nonaudit services to their public company auditees.
B) Audit firms are required to rotate audit partners off audit engagements every five years for public company audits.
C) Firms that audit public companies are subject to inspection by the PCAOB.
D) A certain number of hours, which is based on the size of the company being audited, must be spent on each audit engagement.

Answer: D
Difficulty: 2 Medium
Topic: A Decade of Challenge and Change for Financial Statement Auditors; A Model of Business
Learning Objective: 02-04 Understand the significant changes that have taken place in the auditing profession over the past two decades.; 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

34) A CPA is most likely to refer to one or more of the items listed in the Responsibilities section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* in determining:
A) the nature of the CPA's report qualification.
B) the scope of the CPA's auditing procedures.
C) requirements for the review of the entity and its environment.
D) whether the CPA should undertake an audit engagement.

Answer: D
Difficulty: 2 Medium
Topic: A Model of Business; Auditing Standards
Learning Objective: 02-06 Recognize that an audit is shaped by the auditee's business, industry, and economic environment and understand the essential components and processes characteristic of most business entities.; 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Apply
AACSB: Communication
AICPA: BB Legal; FN Decision Making

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35) Who bears ultimate responsibility for the financial statements?
A) Management of the organization, equally with the external auditor that audits the statements.
B) Management and the shareholders of the organization.
C) The external auditor that audits the statements.
D) Management of the organization.

Answer: D
Difficulty: 1 Easy
Topic: Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Remember
AACSB: Analytical Thinking
AICPA: BB Legal; FN Measurement

36) The Responsibilities section of the *Principles Underlying an Audit Conducted in Accordance with GAAS* is concerned with:
A) proper planning and supervision, appropriate materiality levels, and sufficient appropriate audit evidence.
B) an audit opinion in accordance with the auditor's findings, whether the financials are presented fairly, and whether the financial are in accordance with the applicable financial reporting framework.
C) whether the auditor has unrestricted access to those within the entity from whom the auditor needs to obtain audit evidence.
D) complying with ethical requirement, appropriate competence and maintaining professional skepticism.

Answer: D
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Measurement

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37) The Responsibilities section of *Principles Underlying an Audit Conducted in Accordance with GAAS* recognizes that regardless of how capable an individual may be in other fields, the individual cannot meet the requirements of the auditing standards without the proper:
A) business and finance courses.
B) quality control and peer review.
C) education and experience in auditing.
D) supervision and review skills.

Answer: C
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Diversity
AICPA: FN Decision Making; BB Marketing

38) The main difference between SAS and AU is:
A) they are the same except that SAS are organized chronologically and the AU are organized by topical area.
B) SAS are issued by the ASB and AU are issued by the PCAOB.
C) SAS are issued by the PCAOB and AU are issued by the ASB.
D) SAS define minimum standards of performance for auditors while AU define financial accounting principles that must be followed according to GAAP.

Answer: A
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-11 Understand the nature of auditing standards.
Bloom's: Analyze
AACSB: Communication
AICPA: FN Decision Making; BB Resource Management

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39) The AICPA's Statements on Auditing Standards can be described as:
A) providing very specific guidance about the specific activities an auditor must perform on each engagement.
B) similar to financial accounting standards in that they are developed by the government.
C) tend to be general in nature and require a great deal of professional judgment.
D) providing assurance that an auditor will not issue an incorrect opinion.

Answer: C
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-11 Understand the nature of auditing standards.
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Measurement

40) Due professional care requires auditors to:
A) obtain independent, third party (non-auditee) documentation as evidence for all information presented in the financial statements.
B) exercise professional skepticism during the audit.
C) disregard any evidence generated by the auditee during the audit.
D) find every error contained in the financial statements prepared by management.

Answer: B
Difficulty: 2 Medium
Topic: Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Decision Making

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41) The objectives of the Reporting section of *Principles Underlying an Audit Conducted in Accordance with GAAS* are to provide assurance and include all of the following except for:
A) an opinion statement of whether the financial statements present fairly.
B) an opinion statement of whether the financials are free of material misstatements.
C) an opinion statement of whether the financials are in accordance with an applicable financial reporting framework.
D) an opinion statement of whether the financial statements between periods are not materially affected by changes in accounting principles that are not disclosed.

Answer: D
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Analytical Thinking
AICPA: BB Legal; FN Measurement

42) An internal auditor is likely to be more concerned with _____ than the external auditor.
A) internal administrative procedures
B) cost accounting procedures
C) the efficiency of operations
D) internal control

Answer: C
Difficulty: 2 Medium
Topic: Types of Other Audit, Attest, and Assurance Services; Types of Auditors
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.; 02-01 Be familiar with the different types of auditors.
Bloom's: Apply
AACSB: Analytical Thinking
AICPA: BB Industry; FN Risk Analysis

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43) Which of the following is NOT included in the broad category of assurance services?
A) Operational audit.
B) Reporting on internal control.
C) Accounting or review services.
D) Evaluation of the auditee's risk management framework.

Answer: C
Difficulty: 2 Medium
Topic: Types of Other Audit, Attest, and Assurance Services
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.
Bloom's: Apply
AACSB: Communication
AICPA: BB Industry; FN Reporting

44) Which of the following is NOT explicitly a part of the IIA's definition of internal auditing?
A) Internal auditing is an objective assurance activity.
B) Internal auditing is a consulting activity.
C) Internal auditing should help an organization accomplish its objectives.
D) Internal auditors should help external auditors complete the annual financial statement audit.

Answer: D
Difficulty: 1 Easy
Topic: Types of Auditors
Learning Objective: 02-01 Be familiar with the different types of auditors.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Research

45) Which of the following statements regarding the PCAOB is incorrect?
A) It is a public-sector, nonprofit corporation.
B) It is overseen by the SEC.
C) It sets standards for public company audits.
D) It has delegated all of its standard-setting authority to the AICPA.

Answer: D
Difficulty: 2 Medium
Topic: A Model of Business
Learning Objective: 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Decision Making

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46) Due professional care requires:
A) auditors to maintain an attitude that includes a questioning mind and a critical assessment of audit evidence.
B) the examination of all available corroborating evidence.
C) the exercise of error-free judgment.
D) a study and review of internal controls that includes tests of controls.

Answer: A
Difficulty: 1 Easy
Topic: Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Remember
AACSB: Ethics
AICPA: FN Decision Making; BB Critical Thinking

47) Which of the following best describes the role of corporate governance?
A) Management decides which accounting principles are the most appropriate.
B) Shareholders vote to decide who should be members of the board of directors.
C) Holding the management team accountable to shareholders and other constituents for the utilization of the entity's resources.
D) Management often is compensated based on the company's profitability.

Answer: C
Difficulty: 3 Hard
Topic: A Model of Business
Learning Objective: 02-06 Recognize that an audit is shaped by the auditee's business, industry, and economic environment and understand the essential components and processes characteristic of most business entities.
Bloom's: Understand
AACSB: Communication
AICPA: BB Industry; FN Decision Making

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48) The Performance section of *Principles Underlying an Audit Conducted in Accordance with GAAS* states that the auditor is unable to obtain absolute assurance that the financials are free of material misstatements because of inherent limitations which arise from all of the following except:
A) the presentation of the financial statements based on GAAS.
B) the nature of financial reporting.
C) the nature of audit procedures.
D) the need for the audit to be conducted within a reasonable period of time and so as to achieve a balance between benefit and cost.

Answer: A
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Analytical Thinking
AICPA: BB Legal; FN Decision Making

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

Answer: C
Difficulty: 3 Hard
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Analytical Thinking
AICPA: BB Legal; FN Measurement

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50) The 'Purpose of an Audit and Premise upon which an Audit is Conducted' section of *Principles Underlying an Audit Conducted in Accordance with GAAS* states that management is responsible for all the following except for:
A) the preparation and fair presentation of the financial statement in accordance with the applicable financial reporting framework.
B) the design, implementation, and maintenance of internal control.
C) providing financial statement users with an opinion on whether the financial statements present fairly.
D) ensuring that the financial statements are free from material misstatement, whether due to error or fraud.

Answer: C
Difficulty: 3 Hard
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Reporting

51) The Performance section of *Principles Underlying an Audit Conducted in Accordance with GAAS* states that for auditors to obtain reasonable assurance, they need to do all of the following except:
A) make sure all audit team members have adequate training.
B) obtain sufficient appropriate audit evidence.
C) identify and assess risks of material misstatement.
D) determine and apply appropriate materiality levels.

Answer: A
Difficulty: 3 Hard
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

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52) The Reporting section of *Principles Underlying an Audit Conducted in Accordance with GAAS* requires the auditor's report to contain either an expression of opinion regarding the financial statements taken as a whole or an assertion to the effect that an opinion cannot be expressed. The objective of this requirement is to prevent:
A) an auditor from reporting on one basic financial statement and not the others.
B) an auditor from expressing different opinions on each of the basic financial statements.
C) management from reducing its final responsibility for the basic financial statements.
D) misinterpretations regarding the degree of responsibility the auditor is assuming.

Answer: D
Difficulty: 3 Hard
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Reporting

53) The Performance section of the "Principles Underlying an Audit" is concerned with:
A) proper planning and supervision, appropriate materiality levels, and sufficient appropriate audit evidence.
B) an audit opinion in accordance with the auditor's findings, whether the financials are presented fairly, and whether the financial are in accordance with the applicable financial reporting framework.
C) whether the auditor has unrestricted access to those within the entity from whom the auditor needs to obtain audit evidence.
D) complying with ethical requirement, appropriate competence and maintaining professional skepticism.

Answer: A
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Research

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54) The Reporting section of the "Principles Underlying an Audit" is concerned with:
A) proper planning and supervision, appropriate materiality levels, and sufficient appropriate audit evidence.
B) the auditor expressing an audit opinion in accordance with the auditor's findings, whether the financials are presented fairly, and whether the financial are in accordance with the applicable financial reporting framework.
C) whether the auditor has unrestricted access to those within the entity from whom the auditor needs to obtain audit evidence.
D) complying with ethical requirements, appropriate competence and maintaining professional skepticism.

Answer: B
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Research

55) The IAASB and the ASB have collaborated on the principles underlying an audit conducted in accordance with generally accepted auditing standards. These principles are grouped into four categories. What are the four categories?

Answer: The four categories of principles are:
1. Purpose and premise of an audit;
2. Personal responsibilities of the auditor;
3. Auditor actions in performing the audit; and
4. Reporting.
Difficulty: 1 Easy
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

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56) The principles underlying an audit conducted in accordance with generally accepted auditing standards are grouped into four categories. The second category is that of "personal responsibility of the auditor." Generally explain what is intended by this principle.

Answer: Auditors are responsible for having appropriate competence and capabilities to perform the audit; complying with relevant ethical requirements; and maintaining professional skepticism and exercising professional judgment, throughout the planning and performance of the audit.
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Understand
AACSB: Communication
AICPA: BB Legal; FN Reporting

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57) You are the owner of a small grocery store, Corner Marketplace. Explain the five process categories and how they apply to your business.

Answer:
Financing: The financing process involves loans or shareholder capital financing for assets such as land, buildings, and equipment. Corner Marketplace may have a bank loan or lease for its store. It may also have solicited other means of financing, such as additional owner funds.
Purchasing: Businesses acquire goods and services to support the sale of their own goods or services through the purchasing process. Corner Marketplace would purchase food inventory to sell to customers. It might also need to purchase display cases, freezers, etc. to store and display the inventory.

Human Resource Management: Business organizations hire personnel to perform various functions in accordance with the enterprise's mission and strategy. Corner Marketplace should have established policies for hiring, training, evaluating, counseling, promoting, compensating, and terminating employees.

Inventory Management: A grocery store would have significant inventory to manage, which it accomplishes as part of the inventory management process. The store would need to allocate proper costs to inventory and would need to account for produce, etc. that is expired.

Revenue: Corner Marketplace would generate revenue through sales of food to customers and would collect the proceeds of those sales. Typically, a small grocery store would not have accounts receivables from customers, as customers would pay immediately. However, the revenue cycle includes cash receipts and credit card transactions.
Difficulty: 3 Hard
Topic: A Model of Business
Learning Objective: 02-06 Recognize that an audit is shaped by the auditee's business, industry, and economic environment and understand the essential components and processes characteristic of most business entities.; 02-07 Be familiar with a five-component model of business processes used to organize an audit.
Bloom's: Apply
AACSB: Analytical Thinking
AICPA: FN Measurement; BB Industry

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58) Define corporate governance, the board of directors, and the audit committee and explain how they relate to each other.

Answer: *Corporate governance* is all the people, processes, and activities in place to help ensure proper stewardship over an entity's assets. The *board of directors* is the body primarily responsible for management oversight in corporations. The *audit committee* oversees internal and external audit work done for an entity.

The board of directors plays a part in ensuring proper corporate governance by holding management responsible for the usage of the entity's assets. The audit committee is made up of members of the board of directors. The audit committee enhances corporate governance by holding management accountable for its activities through audits of its work.
Difficulty: 2 Medium
Topic: A Model of Business
Learning Objective: 02-06 Recognize that an audit is shaped by the auditee's business, industry, and economic environment and understand the essential components and processes characteristic of most business entities.
Bloom's: Understand
AACSB: Analytical Thinking
AICPA: FN Measurement; BB Critical Thinking

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59) Describe the organizations involved in standard setting for auditors in the United States and what their respective roles are in setting current auditing standards for companies in the United States.

Answer: Most auditing standards were developed by the AICPA's Accounting Standards Board (ASB). At that time, the profession was self-regulated. However, the Sarbanes-Oxley Act of 2002 transferred the authority to set auditing standards for public company audits to the Public Company Accounting Oversight Board (PCAOB), which is overseen by the Securities and Exchange Commission (SEC). However, the PCAOB adopted the ASB's auditing standards on an interim basis. CPAs must still abide by the AICPA's Code of Professional Conduct at all times. They must also follow auditing standards set by the ASB when performing audits of private companies and other nonpublic entities. The ASB has replaced the 10 GAAS with a more comprehensive and coherent description of the principles underlying an audit conducted in accordance with generally accepted auditing standards.
Difficulty: 3 Hard
Topic: A Decade of Challenge and Change for Financial Statement Auditors; A Model of Business; Auditing Standards
Learning Objective: 02-04 Understand the significant changes that have taken place in the auditing profession over the past two decades.; 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."; 02-08 Identify and be familiar with the major organizations that affect the public accounting profession's environment.
Bloom's: Understand
AACSB: Ethics
AICPA: BB Legal; FN Decision Making

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60) What are the four things required of an auditor to obtain reasonable assurance that are outlined in the Performance section of the *Principles Underlying an Audit Conducted in Accordance with GAAS*?

Answer:
- Plans the work and properly supervises any assistants.

- Determines and applies appropriate materiality level or levels throughout the audit.

- Identifies and assesses risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.

- Obtains sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
Difficulty: 1 Easy
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Apply
AACSB: Communication
AICPA: BB Legal; FN Measurement

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61) Jane Goodperson performed an audit on the Quagmire Corporation and issued an unqualified opinion. Jane performed the audit with due professional care and in accordance with generally accepted auditing standards. Two months after the report is issued, Jane discovers on the news that the CEO of Quagmire, Johnny Best, had been stealing small amounts of inventory. The amount, however, is immaterial compared to the overall inventory of the corporation. Jane soon receives a call from Quagmire's CFO, Mark Beastly. Mark wants Jane to refund her audit fees. Mark thinks Jane did not properly perform the audit, as she did not discover this fraud. Further, he feels that now Quagmire's financial statements are not fairly stated because of Jane. How should Jane respond to this claim?

Answer: Jane should tell Mark that her responsibility was to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. She had no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, which are not material to the financial statements will be detected. Quagmire's management, not Jane, has responsibility for the financial statements. In fact, because of the Sarbanes-Oxley Act of 2002, Mark had to assume explicit responsibility for the financial statements by "certifying" that he, as CFO, is responsible for establishing and maintaining internal control and that the financial statements fairly present the entity's financial conditions and operations. This statement is probably still true, since the amount stolen was immaterial.
Difficulty: 2 Medium
Topic: Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Apply
AACSB: Communication
AICPA: BB Legal; FN Risk Analysis

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62) Mike has just graduated from State University with a bachelor's degree in accounting. He would like to pursue a career in auditing. What options does Mike have? Describe three auditing career options, including a description of the organization Mike would work for.

Answer:
External: Mike could become an external auditor. He would work for a CPA firm providing independent audits to nonpublic or public companies. Mike would need to pass the Uniform CPA Examination monitored by the American Institute of Certified Public Accountants. His state may have other requirements, such as 150 credit hours and experience.

Internal: Mike could also be an internal auditor. He would be directly employed by the entity for which he is performing audits. Internal auditors may conduct financial, internal control, compliance, operational, and forensic audits within their organization. Internal auditors are supported by the Institute of Internal Auditors.

Governmental: Another option for Mike is governmental auditing. This is essentially a form of internal auditing and Mike could be employed by federal (such as the Government Accountability Office or the Internal Revenue Service), state, or local agencies.

Forensic: Mike could also be a forensic auditor. Forensic auditors are employed by corporations, government agencies, public accounting firms, and consulting and investigative services firms. They are trained in detecting, investigating, and deterring fraud and white-collar crime and are supported by the Association of Certified Fraud Examiners.
Difficulty: 2 Medium
Topic: Types of Auditors
Learning Objective: 02-01 Be familiar with the different types of auditors.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Decision Making

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63) With respect to an entity's financial statements, describe both the responsibility of management and that of the auditor.

Answer: The financial statements are the responsibility of management. Management is responsible to ensure that the financial statements fairly present the entity's financial conditions and operations. Management is responsible for establishing and maintaining internal control. The auditor's responsibility is to express an opinion on the financial statements based on the audit. The auditor is responsible to provide reasonable assurance with respect to errors, fraud, and illegal acts.
Difficulty: 1 Easy
Topic: Society's Expectations and the Auditor's Responsibilities
Learning Objective: 02-05 Know that management is primarily responsible for the entity's financial statements and understand the auditor's responsibility for detecting errors, material fraud, and illegal acts.
Bloom's: Understand
AACSB: Communication
AICPA: FN Decision Making; BB Critical Thinking

64) What auditing standards are used to conduct an audit for a privately-held corporation? What auditing standards are used to conduct an audit for a publicly-traded corporation? What organization is responsible for setting each of these sets of standards?

Answer: Auditing standards developed by the AICPA's Auditing Standards Board (ASB) are used to conduct an audit for a privately-held corporation or other entities that are nonpublic companies. This includes the principles underlying an audit conducted in accordance with generally accepted auditing standards and the ASB's Statements on Auditing Standards (SAS).

Auditing standards developed by the Public Company Accounting Oversight Board (PCAOB) must be used to conduct an audit for a publicly-traded corporation. These standards include all those issued by the ASB through 2003, which were codified by the PCAOB, and any new standards issued by the PCAOB after that point.
Difficulty: 2 Medium
Topic: Auditing Standards
Learning Objective: 02-09 Understand that auditing standards are established by both U.S. and international standard setters.; 02-10 Be familiar with the "principles underlying an audit conducted in accordance with generally accepted auditing standards."
Bloom's: Remember
AACSB: Communication
AICPA: BB Legal; FN Reporting

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65) There are several types of audit services that are provided by auditors. Identify and define three of these types of audits.

Answer: Financial Statement Audit: Auditors test the transactions, balances, and disclosures in a set of financial statements to determine if they are materially correct.

Internal Control Audit: Auditors test the internal controls of a company to determine whether the control system is functioning effectively (i.e., preventing, or detecting and correcting, misstatements in the financial statements).

Compliance Audit: Auditors test the extent to which rules, policies, laws, covenants, or government regulations are followed by the entity.

Operational Audit: Auditors review part or all of an organization's activities to evaluate whether resources are being used effectively and efficiently. The auditor assesses the entity's performance, identifies areas for improvement, and develops recommendations.

Forensic Audit: Auditors conduct forensic audits to detect or deter fraudulent activities.
Difficulty: 2 Medium
Topic: Types of Other Audit, Attest, and Assurance Services
Learning Objective: 02-02 Be familiar with the various types of audit, attest, and assurance services offered by accounting professionals.
Bloom's: Remember
AACSB: Communication
AICPA: BB Industry; FN Reporting

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