Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

SKU: 9781264111879-TEST-BANK

Chapter 01 Test Bank - Static

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

1) Although independent audits of today place more emphasis on sampling than did the audits of the 19th century, in increasing circumstances, changes in information technology are again making possible audits of aspects of all transactions in large populations.
   - ◎ true
   - ◎ false

2) The American Institute of Certified Public Accountants prepares the CPA Exam and issues CPA certificates, while individual states issue permits for CPAs to practice.
   - ◎ true
   - ◎ false

3) The GAO is limited by statute to performing only compliance audits.
   - ◎ true
   - ◎ false

4) The SEC does *not* pass on the merits of the securities that are registered with the agency.
   - ◎ true
   - ◎ false

5) The American Institute of Certified Public Accountants has the primary authority to establish accounting standards.
   - ◎ true
   - ◎ false

6) When a CPA firm enrolls in the AICPA Peer Review Program, it agrees to comply with the AICPA's Quality Management Standards and to have a peer review of its accounting and auditing practice every seven years.
   - ◎ true
   - ◎ false

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

7) Despite the high cost, virtually all small companies have their financial statements audited by a CPA firm, so they can obtain a loan.
   - ◎ true
   - ◎ false

8) Senior auditors in CPA firms may be responsible for planning and coordinating audits on smaller engagements.
   - ◎ true
   - ◎ false

9) The Sarbanes-Oxley Act requires that auditors of certain publicly traded companies in the United States perform an integrated audit that includes providing assurance on both the financial statements and on compliance with laws and regulations.
   - ◎ true
   - ◎ false

10) Auditing is frequently only a small part of the practice of local CPA firms.
   - ◎ true
   - ◎ false

11) A summary of findings rather than assurance is most likely to be included in a(n):
   - A) Agreed-upon procedures report.
   - B) Compilation report.
   - C) Audit report.
   - D) Review report.

12) The Statements on Auditing Standards have been issued by the:
   - A) Auditing Standards Board.
   - B) Financial Accounting Standards Board.
   - C) Securities and Exchange Commission.
   - D) Federal Bureau of Investigation.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

13) The risk that a company's financial statements will materially depart from generally accepted accounting principles is referred to as:
A) Business Risk.
B) Information Risk.
C) Detection Risk.
D) Document Risk.

14) Historically, which of the following has the AICPA been **most** concerned with providing?
A) Auditing standards.
B) Professional guidance for regulating financial markets.
C) Internal auditing standards.
D) Staff support to Congress.

15) The organization charged with protecting investors and the public by requiring full disclosure of financial information by companies offering securities to the public is the:
A) Auditing Standards Board.
B) Financial Accounting Standards Board.
C) Government Accounting Standards Boards.
D) Securities and Exchange Commission.

16) An engagement in which a CPA firm arranges for a critical review of its practices by another CPA firm is referred to as a(n):
A) Peer Review Engagement.
B) Quality Management Engagement.
C) Quality Assurance Engagement.
D) Attestation Engagement.

17) The sequentially-numbered pronouncements issued by the Auditing Standards Board over a period of years are known as:
A) Auditing Statements of Position (ASPs).
B) Accounting Series Releases (ASRs).
C) Statements on Auditing Standards (SASs).
D) Statements on Auditing Principles (SAPs).

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

18) Government Accountability Office (GAO):
A) is primarily concerned with rapid processing of all accounts payable incurred by the federal government.
B) responsibilities include audits of government agencies.
C) is an organization of professional accountants whose primary interest is in the effectiveness of presidential expenditures.
D) is primarily concerned with budgets and forecasts approved by the PCAOB.

19) The risk associated with survivability and profitability is referred to as:
A) Information risk.
B) Inherent risk.
C) Relative risk.
D) Business risk.

20) The risk that a company will *not* be able to meet its obligations when they become due is an aspect of:
A) Information risk.
B) Inherent risk.
C) Relative risk.
D) Business risk.

21) Which of the following attributes is more essential for an auditor than of management?
A) Integrity.
B) Competence.
C) Independence.
D) Keeping informed on current professional developments.

22) The attest function:
A) Is an essential part of every engagement by the CPA, whether performing auditing, tax work, or other services.
B) Includes the preparation of a report of the CPA's findings.
C) Requires a consideration of internal control.
D) Requires a complete review of all transactions during the period under examination.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

23) Attestation risk is limited to a low level in which of the following engagement(s)?
A) Both examinations and reviews.
B) Examinations, but not reviews.
C) Reviews, but not examinations.
D) Neither examinations nor reviews.

24) When compared to an audit performed prior to 1900, an audit today:
A) Is more likely to use sampling in more areas.
B) Is less likely to include consideration of the effectiveness of internal control.
C) Has bank loan officers as the primary financial statement user group.
D) Includes a more detailed examination of all individual transactions.

25) Which of the following series of pronouncements are issued by the Securities and Exchange Commission?
A) Auditing Registrar Releases.
B) Form S-1.
C) Accounting and Auditing Enforcement Releases.
D) Statements of Position.

26) Which of the following is *not* correct relating to the Sarbanes-Oxley Act?
A) It toughens penalties for corporate fraud.
B) It restricts the types of consulting CPAs may perform for audit clients.
C) It maintains identical requirements for large and small public companies.
D) It eliminates a significant portion of the AICPA's system of self-regulation.

27) An operational audit differs in many ways from an audit of financial statements. Which of the following is the best example of one of these differences?
A) The usual audit of financial statements covers the four basic statements, whereas the operational audit is usually limited to either the balance sheet or the income statement.
B) Operational audits are more subjective and often involve evaluating efficiency and effectiveness of operations.
C) Operational audits do not ordinarily result in the preparation of a report.
D) The operational audit deals with pre-tax income.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

28) The review of a company's financial statements by a CPA firm:
A) Is substantially less in scope of procedures than an audit.
B) Requires detailed analysis of the major accounts.
C) Is of similar scope as an audit and adds similar credibility to the statements.
D) Culminates in issuance of a report expressing the CPA's opinion as to the fairness of the statements.

29) Which statement is correct with respect to continuing professional education (CPE) requirements of CPAs?
A) Only CPAs in public practice are required to meet such requirements.
B) Only CPAs in public practice or business are required to meet such requirements.
C) State laws require CPAs to participate in continuing education programs as a condition for license renewal.
D) Participation in continuing professional education is voluntary of all CPAs.

30) The FDIC Improvement Act requires that management of large financial institutions engage auditors to attest to assertions by management about the effectiveness of the institution's internal controls over:
A) Broker and dealer relationships.
B) Financial reporting.
C) Effectiveness of operations.
D) Efficiency of operations.

31) Passage of the Sarbanes-Oxley Act led to the establishment of the:
A) Auditing Standards Board.
B) Public Company Accounting Oversight Board.
C) Public Accountancy Review Board.
D) Securities and Exchange Commission.

32) Which of the following professionals has primary responsibility for the performance of an audit?
A) The managing partner of the firm.
B) The senior assigned to the engagement.
C) The manager assigned to the engagement.
D) The partner in charge of the engagement.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

33) Which of the following types of services is generally provided only by CPA firms?
A) Tax audits.
B) Financial statement audits.
C) Compliance audits.
D) Operational audits.

34) The right to practice as a CPA is given by which of the following organizations?
A) State Boards of Accountancy.
B) The AICPA.
C) The SEC.
D) The General Accounting Office.

35) Which of the following terms best describes the audit of a taxpayer's tax return by an IRS auditor?
A) Operational audit.
B) Internal audit.
C) Compliance audit.
D) Government audit.

36) Inquiries and analytical procedures ordinarily form the basis for which type of engagement?
A) Agreed-upon procedures.
B) Audit.
C) Examination.
D) Review.

37) Which of the following best describes the reason why independent auditors report on financial statements?
A) A management fraud may exist and it is more likely to be detected by independent auditors.
B) An audit provides credibility to the financial statements.
C) A misstatement of account balances may exist and is generally corrected as the result of the independent auditors' work.
D) Poorly designed internal control may be in existence.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

38) Financial accounting standards for cities are developed primarily by the:
A) FASB.
B) IFAC.
C) GASB.
D) SEC.

39) Operational auditing is primarily oriented toward:
A) Future improvements to accomplish the goals of management.
B) The accuracy of data reflected in management's financial records.
C) The verification that a company's financial statements are fairly presented.
D) Past protection provided by existing internal control.

40) A typical objective of an operational audit is for the auditor to:
A) Determine whether the financial statements fairly present 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.

41) An integrated audit performed under the Sarbanes-Oxley Act requires that auditors provide opinions on:

	Financial Statements	Law Compliance
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

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

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

42) In United States v. Arthur Young, the Supreme Court of the United States described the auditor's role as requiring independence, complete fidelity to the public trust and to serve as a(n):
A) Objective observer.
B) Public watchdog.
C) Independent detective.
D) Inspector with high morals.

43) International Standards on Auditing are issued by:
A) International Standards Board.
B) International Auditing and Assurance Standards Board.
C) Public Company Accounting Oversight Board.
D) International Auditing Education Standards Board.

44) In cases of a publicly traded company audit in the United States, when International Standards on Auditing (ISAs) conflict with the PCAOB, standards, which of the following is correct?
A) The ISA is applicable.
B) The PCAOB standard is applicable.
C) The substance of the conflict should be analyzed, and the ISA or PCAOB treatment that seems more appropriate is applicable.
D) Both sets of standards have equal applicability.

45) An audit of the financial statements of a company is referred to as a(n):
A) Financial audit.
B) Compliance audit.
C) Operational audit.
D) Integrated financial audit.

46) An act passed by Congress aimed at promoting financial stability improving accountability and transparency in the financial system:
A) Better governance Act.
B) Dodd-Frank Act.
C) Public Company Accounting Oversight Board Act.
D) Sarbanes-Oxley Act.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

47) The financial statements of a United States public company are most likely to follow:
- A) Generally accepted accounting principles.
- B) International Standards of Auditing.
- C) Public Company Accounting Oversight Board Principles.
- D) Quality management standards.

48) The global organization of accounting professional bodies is called:
- A) International Auditing and Assurance Standards Board.
- B) International Ethics standard Board for Accountants.
- C) International Federation of Accountants.
- D) International Accountants Standards Setters.

49) Which of the following is correct concerning the Sarbanes-Oxley Act?
- A) Effective January 1, 2003, it eliminated the Auditing Standards Board.
- B) It applies to all audits conducted in the United States.
- C) It prohibits providing any consulting services for an audit client.
- D) It requires all accounting firms that audit SEC registrants to register with the Public Company Accounting Oversight Board.

50) An "audit committee" of a publicly held company ordinarily should be made up of:
- A) Major stakeholders, including management and representatives of equity interests.
- B) The audit partner, the chief financial officers, the legal counsel, and at least one outsider.
- C) Representatives from the client's management.
- D) Members of the board of directors who are not officers or employees.

51) Attest engagements always have:
- A) A written subject title.
- B) An examination report.
- C) Reasonable assurance.
- D) Subject matter.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

52) What type of audit is most likely to be involved by bank examiners employed by the Federal Deposit Insurance Corporation?
A) Financial.
B) Compliance.
C) Operational.
D) Integral.

53) For auditing matters relating to a public company an auditor is most likely to use standards issued by the:
A) Auditing Standards Board.
B) Financial Accounting Standards Board.
C) Federal Trade Commission.
D) Public Company Accounting Oversight Board.

54) Which of the following is the American Institute of Certified public Accountants *least* involved with?
A) Contributing to the profession's self-regulation.
B) Promulgating auditing standards for nonpublic companies.
C) Promulgating auditing standards for public companies.
D) Promoting continuing professional education.

55) Which of the following is *not* a type of attestation engagement?
A) Agreed-upon procedures.
B) Examination.
C) Preparation.
D) Review.

56) Which of the following is *not* a duty of the PCAOB?
A) Register public accounting firms that prepare audit reports for issuers and non-issuers.
B) Establish or adopt auditing and related attestation, quality management, ethics, and independence standards.
C) Inspect registered firms' audits and quality management systems.
D) Investigate and discipline registered public accounting firms and their associated persons for violations of specified laws, rules, or professional standards.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

57) Which of the following statements is *not* correct relating to the PCAOB?
- A) Its CPA inspection program covers a CPA firm's public audit practice.
- B) Annually it performs an inspection of all CPA firms with one or more public clients.
- C) It may impose monetary damages against CPA firms.
- D) It may refer cases to the United States Justice Department.

58) The individual or group of individuals most directly responsible for oversight of the financial reporting, regulatory compliance and risk management most frequently is:
- A) Audit Committee.
- B) External Auditors.
- C) Internal Auditing Department.
- D) Vice President of Compliance.

59) Of the following, the service *least* likely to be considered an attestation services engagement is:
- A) Agreed-upon procedures.
- B) Examination of internal control.
- C) Tax return preparation services.
- D) Review.

60) The Sarbanes-Oxley Act of 2002 made significant reforms for public companies and their auditors.
- a. Describe the events that led up to the passage of the Act.
- b. Describe the major changes made by the Act.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

61) Many people confuse the responsibilities of the independent auditors and the client's management with respect to audited financial statements.
   a. Describe management's responsibility regarding audited financial statements.
   b. Describe the independent auditors' responsibility regarding audited financial statements.
   c. Evaluate the following statement: "If the auditors disagree with management regarding an accounting principle used in the financial statements, the auditors should express their views in the notes to the financial statements."

62) An investor is considering investing in one of two companies. The companies have very similar reported financial position and results of operations. However, only one of the companies has its financial statements audited.
   a. Describe what creates the demand for an audit in this situation. Include a discussion of how audited financial statements facilitate this investment transaction, and the effect of the audit on business risk and information risk.
   b. Identify the potential consequences to the company of not having its financial statements audited.

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

Chapter 01 Test Bank - Static

Answer Key

Test name: Chapter 01 Test Bank - Static

1) TRUE
2) FALSE
3) FALSE
4) TRUE
5) FALSE
6) FALSE
7) FALSE
8) TRUE
9) FALSE
10) TRUE
11) A
12) A
13) B
14) A
15) D
16) A
17) C
18) B
19) D
20) D
21) C
22) B
23) B
24) A
25) C
26) C
27) B
28) A
29) C
30) B
31) B
32) D
33) B
34) A
35) C
36) D
37) B

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank

38) C
39) A
40) C
41) B
42) B
43) B
44) B
45) A
46) B
47) A
48) C
49) D
50) D
51) D
52) B
53) D
54) C
55) C
56) A
57) B
58) A
59) C
60) Essay
61) Essay
62) Essay

Principles of Auditing and Other Assurance Services - 2024 Release 1st edition Whittington Test Bank