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

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) A series of business and related auditing failures led to the passage of the C-SOX in 2003.
   - ◎ true
   - ◎ false

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

3) The audit committee generally includes senior executives of the organization.
   - ◎ true
   - ◎ false

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

5) One of the five basic business processes is the warehousing cycle.
   - ◎ true
   - ◎ false

6) The Auditing and Assurance Standards Board (AASB) is responsible for establishing all auditing standards in Canada.
   - ◎ true
   - ◎ false

7) AASB auditing standards must be followed on all financial statement audits performed in Canada.
   - ◎ true
   - ◎ false

8) A financial statement audit must be conducted based on GAAP.
   - ◎ true
   - ◎ false

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9) The purpose of an audit is to allow the auditor to express an opinion about the fairness of the financial statements.
   - ◎ true
   - ◎ false

10) CSA are the auditing standards must be followed on all audits of public companies' financial statements.
   - ◎ true
   - ◎ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

11) The Audit Committee consists of:
   - A) Members of management.
   - B) A subcommittee senior employees.
   - 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 Canada?
   - A) CPA Canada.
   - B) IFAC.
   - C) CPAB.
   - D) AASB.

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13) The Canadian Securities Administrators role is to:
   - A) regulates disclosure of material information in a registration statement for an initial public offering of securities.
   - B) ensures that listed companies file audited financial statements that have been prepared in accordance with IFRS
   - C) conduct audits of governmental entities.
   - D) reviews member firm's audit files to ensure that they are in compliance with CAS.

14) The Auditing and Assurance Standards Board (AASB) is an independent body with the authority and responsibility to:
   - A) Enhance the influence, relevance, and value of the Canadian CPA profession.
   - B) Develop and publish International Financial Reporting Standards (IFRS)
   - C) Set standards for quality management, audit, and other assurance and related services engagement and guidance in Canada.
   - D) Improve, coordinate, and harmonize regulation of the Canadian capital markets.

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15) Auditors are required to:
   A) Be independent only in fact and not in appearance.
   B) Perform the audit engagement to a degree of "absolute assurance".
   C) Detect all instances of fraud and error.
   D) To maintain professional skepticism.

16) Which principle of the *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* 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 Canadian Auditing Standards?*
   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 Canadian Auditing Standards* 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 Canadian Auditing Standards* 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 primary responsibility of maintaining effective internal controls reside with:
A) The partner assigned to the audit engagement.
B) Management of the company.
C) Auditor in charge of the fieldwork.
D) The securities administrators.

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

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

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

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

26) 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.

27) Internal control audits:
A) Are required for private entities.
B) Have different objectives of a financial statement audit.
C) Are systematic review of part or all of an organization’s activities to evaluate whether resources are being used effectively and efficiently.
D) Is not a requirement for Canadian companies.

28) 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.

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

30) 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.

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31) 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 Canadian Auditing Standards* 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.

32) 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.

33) The Responsibilities section of the *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* 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 skepticisim.

34) The Responsibilities section of *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* 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.

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35) 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.

36) The objectives of the Reporting section of *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* 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.

37) 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 TBEXAM.COM
D) internal control

38) 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.

39) 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.

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40) Which of the following statements regarding the AASB is incorrect?
A) It is a public-sector, nonprofit corporation.
B) It is overseen by the CSA.
C) It sets statements for auditing standards.
D) It is sponsored by the International Federation of Accountants (IFAC)

41) 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.

42) 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.

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43) The Performance section of *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* 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.

44) 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.

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45) The 'Purpose of an Audit and Premise upon which an Audit is Conducted' section of *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* 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.

46) The Performance section of *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* states that for auditors to obtain reasonable assurance, they need to do all of the following except for:
   A) Make sure all audit team members have adequate training.
   B) Obtains sufficient appropriate audit evidence.
   C) Identifies and assesses risks of material misstatement.
   D) Determines and applies appropriate materiality levels.

47) The Reporting section of *Principles Underlying an Audit Conducted in Accordance with Canadian Auditing Standards* 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.

48) 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 skepticisim.

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49) 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.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

50) The AASB's (which are influenced by the IAASB) has developed principles underlying an audit conducted in accordance with generally accepted auditing standards. These principles are grouped into four categories. What are the four categories?

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51) The principles underlying an audit conducted in accordance with Canadian Auditing Standards are grouped into four categories. The second category is that of "responsibilities"; these are the responsibilities of the auditor. Generally explain what is intended by this principle.

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

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

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

55) 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 Canadian Auditing Standards*?

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56) 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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57) Mike has just graduated from 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.

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

59) 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 entities?

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60) There are several types of audit services that are provided by auditors. Identify Other Audit Services and define three of these types of audits.

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Answer Key

Test name: Chapter 02

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

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38) C
39) D
40) C
41) A
42) C
43) A
44) C
45) C
46) A
47) D
48) A
49) B
50) Short Answer
The four categories of principles are: 1. Purpose and premise of an audit; 2. Responsibilities of the auditor; 3. Performance of the auditor actions in the audit; and 4. Reporting.

51) Short 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.

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52) Short 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.

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53) Short 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.

54) Short Answer
The CPA′s Auditing and Assurance Standards Board is responsible for establishing all auditing standards in Canada. The AASB′s standards are influenced by the auditing standards of the IAASB.
The Auditing and Assurance Standards Board (AASB) is an independent body with the authority and responsibility to set standards for quality management, audit, and other assurance and related services engagement and guidance in Canada.
The AASB contributes to the development of International Standards on Auditing (ISAs), which are adopted as Canadian Auditing Standards (CASs), by participating in consultations and activities of the International Auditing and Assurance Standards Board (IAASB) to ensure Canadian entities′ auditing needs are considered. The AASB issues the following standards:
• Statements on Auditing Standards
• Statements on Standards for Assurance Engagements
• Statements on Standards for Review and Compilation Engagements
• Statements on Audit Quality Control Standards

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55) Short Answer
To obtain reasonable assurance, which is high, but not an absolute, level of assurance, the auditor:
• 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.

56) Short Answer

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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 (i.e., the small amounts of inventory). Quagmire's management, not Jane, has responsibility for the financial statements.

57) Short Answer
Some of the auditing career's that Mike could pursue are as follows:
External: Mike could become an external auditor. He would work for a CPA firm providing independent audits to nonpublic or public companies.
The education requirement for Mike to become a CPA is usually a minimum certification requirement of a university degree with selected courses in business and accounting. In addition, the provinces and territories typically require 30 months of professional experience before the CPA certificate is granted. All provinces and territories require that an individual pass the Common Final Examination (CFE), administered by CPA Canada
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 (IIA).
Government: Another option for Mike is government auditing. This is essentially a form of internal auditing.
Mike could be employed by the federal government. At the federal level, two agencies use auditors extensively: the Office of the Auditor General (OAG) and Canada Revenue Agency (CRA).
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 (ACFE).

58) Short 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.

59) Short Answer

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In Canada, the CPA's Auditing and Assurance Standards Board is responsible for establishing all auditing standards in Canada for private and publicly traded entities.
It should be noted that publicly traded entities have been prepared in accordance with IFRS.

60) Short Answer
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. An example of a compliance audit could be examination of tax returns of individuals and companies by CRA for compliance with the Income Tax Act.
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. An example of an operational audit is where an entity employs auditors to assess the efficiency and effectiveness of its use of information technology resources.
Forensic Audit: Auditors conduct forensic audits to detect or deter fraudulent activities.

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