Exam

Name___________________________________

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

1) Recording, classifying, and summarizing economic events in a logical manner for the purpose of providing financial information for decision making is commonly called: 1) ________

A) finance. B) economics. C) auditing. D) accounting.

2) In the audit of historical financial statements, which of the following accounting bases is the most common? 2) ________

A) International Financial Reporting Standards.
B) Liquidation basis of accounting.
C) Regulatory accounting principles.
D) Cash basis of accounting.

3) Any service that requires an auditing firm to issue a report about the reliability of an assertion that is made by another party is a(n): 3) ________

A) tax service. B) assurance service.
C) accounting and bookkeeping service. D) attestation service.

4) The main types of attestation services are: 4) ________

A) audits, verifications, and other attestation services.
B) audits, reviews, and other attestation services.
C) reviews, verifications, and other attestation services.
D) audits, reviews, and verifications.

5) In the U.S., the Sarbanes-Oxley Act applies to which of the following companies? 5) ________

A) All companies.
B) All public companies and privately held companies with assets greater than US$500 million.
C) Public companies.
D) Privately held companies.

6) Providing quantitative information that management and others can use to make decisions is the function of: 6) ________

A) finance. B) accounting.
C) management information systems. D) auditing.

7) The ________ interest rate may be defined as approximately the rate a bank could earn by investing in government treasury notes for the same length as the length of a business loan. 7) ________

A) risk-free B) prevailing C) nominal D) stated

8) In the U.S., the use of the Certified Public Accountant title is regulated by: 8) ________

A) the federal government.
B) the American Institute of Certified Public Accountants through the licensing departments of the tax and auditing committees.
C) the Securities and Exchange Commission.
D) state law through a licensing department or agency of each state.

9) In the Arab world, requirements for the formal education, practice experience, and continuing education of public accounts are set by: 9) ______
A) national associations of accountants and auditors.
B) government ministries.
C) either of A and B.
D) neither A or B.

10) An operational audit has as one of its objectives to: 10) ______
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.

11) An audit of historical financial statements is most often performed to determine whether the: 11) ______
A) organization is operating efficiently and effectively.
B) entity is following specific procedures or rules set down by some higher authority.
C) management team is fulfilling its fiduciary responsibilities to shareholders.
D) none of these choices.

12) An examination of part of an organization's procedures and methods for the purpose of evaluating efficiency and effectiveness is what type of audit? 12) ______
A) Operational audit.
B) Compliance audit.
C) Production audit.
D) Financial statement audit.

13) An audit to determine whether an entity is following specific procedures or rules set down by some higher authority is classified as a(n): 13) ______
A) operational audit.
B) audit of financial statements.
C) production audit.
D) compliance audit.

14) Which of the following is a type of audit evidence? 14) ______
A) Observations made by an auditor.
B) Written communications from company employees or outsiders.
C) Oral responses to the auditor from employees of the company under audit.
D) Evidence may take any of the above forms.

15) Which of the following services provides the lowest level of assurance on a financial statement? 15) ______
A) A review.
B) An audit.
C) Neither service provides assurance on financial statements.
D) Each service provides the same level of assurance on financial statements.

16) The three requirements for becoming a CPA include all but which of the following? 16) ______
A) Educational requirements.
B) Uniform CPA examination requirement.
C) Experience requirement.
D) Character requirements.

17) In 'auditing' financial accounting data, the primary concern is with: 17) _______

A) determining if fraud has occurred.
B) analyzing the financial information to be sure that it complies with government requirements.
C) determining if taxable income has been calculated correctly.
D) determining whether recorded information properly reflects the economic events that occurred during the accounting period.

18) Financial statement users often receive unreliable financial information from companies. Which of the following is not a common reason for this? 18) _______

A) Lack of firsthand knowledge about the business.
B) Complex business transactions.
C) Large amounts of data.
D) Each of these choices is a common reason for unreliable financial information.

19) Which of the following is not a Trust Services principle as defined by the AICPA or CICA? 19) _______

A) Availability.
B) Operational integrity.
C) Online privacy.
D) Processing integrity.

20) Which one of the following is more difficult to evaluate objectively? 20) _______

A) Efficiency and effectiveness of operations.
B) Compliance with government regulations.
C) Presentation of financial statements in accordance with IFRS.
D) All three of the above are equally difficult.

21) Which of the following audits can be regarded as generally being a compliance audit? 21) _______

A) GAO auditor's evaluation of the computer operations of governmental units.
B) An auditing firm's audit of a local business.
C) A tax inspector's examinations of taxpayer returns.
D) An internal auditor's review of a company's payroll authorization procedures.

22) Which of the following can be significantly affected by an audit? 22) _______

A) Business risk.
B) The risk-free interest rate.
C) Information risk.
D) Inherent risk.

23) The trait that distinguishes auditors from accountants is the: 23) _______

A) auditor's ability to interpret financial statements.
B) auditor's education beyond the degree level.
C) auditor's ability to interpret accounting principles generally used internationally by business.
D) auditor's accumulation and interpretation of evidence related to a company's financial statements.

24) Attestation services on information technology include *WebTrust* and *SysTrust* services. Which of the following statements most accurately describes *SysTrust* services? 24) _______

A) *SysTrust* services provide assurance as to whether accounting personnel are following procedures prescribed by the company controller.
B) *SysTrust* services provide assurance on business processes, transaction integrity and information processes.
C) *SysTrust* services provide assurance on system reliability in critical areas such as security and data integrity.
D) *SysTrust* services provide assurance on internal control over financial reporting.

25) Publicly traded companies in the Arab world: 25) ______

A) are not required to produce audited financial statements.
B) are only required to produce financial statements checked by internal auditors.
C) must have an audit of their financial statements.
D) must have an audit of their financial statements and their internal controls.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

26) Discuss the four primary requirements for becoming a licensed accountant in Kuwait.

27) Two types of attestation services provided by CPA firms are audits and reviews. Discuss the similarities and differences between these two types of attestation services. Which type provides the least assurance?

28) Discuss the differences and similarities between the roles of accountants and auditors. What additional expertise must an auditor possess beyond that of an accountant?

29) Discuss the similarities and differences between financial statement audits, operational audits, and compliance audits. Give an example of each type.

30) Discuss the similarities and differences between the roles of independent auditors, GAO auditors, tax inspectors, and internal auditors.

31) To do an audit, it is necessary for information to be in a verifiable form and some criteria by which the auditor can evaluate the information. What information and criteria would an independent auditing firm use when auditing a company's historical financial statements? What information and criteria would an tax inspector use when auditing that same company's tax return? What information and criteria would an internal auditor use when performing an operational audit to evaluate whether the company's computerized payroll processing system is operating efficiently and effectively?

32) Explain what is meant by information risk, and discuss the four causes of this risk.

33) Attestation services fall into five categories. What are these categories?

34) Discuss factors that are likely to significantly reduce information risk in the next five to ten years.

35) Discuss the reasons why auditors of financial statements must be both competent and independent.

36) Discuss the role of the forensic auditor and give some examples of situations that they might investigate.

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

Match one of the terms (a-p) with each of the definitions provided below:

a. Accounting
b. Assurance service
c. Attestation service
d. Audit evidence
e. Audit of historical financial statements
f. Audit report
g. Compliance audit
h. Forensic audit
i. Independent auditors
j. Information asymmetry
k. Information risk
l. Internal auditors
m. Internal control over financial reporting
n. Operational audit
o. Review of historical financial statements
p. Sarbanes-Oxley Act

37) An independent professional service that improves the quality of information for decision makers. 37) ______________

38) The concept that the manager generally has more information about the true financial position, results of operations, and cash flow of the company than the absentee owner. 38) ______________

39) A law passed in 2002 that provides for additional regulation of public companies and their auditors; and also requires auditors to audit the effectiveness of internal control over financial reporting 39) ______________

40) Any information used by the auditor to determine whether the information being audited is stated in accordance with established criteria. 40) ______________

41) The recording, classifying, and summarizing of economic events in a logical manner for the purpose of providing financial information for decision making. 41) ______________

42) The risk that information upon which a business decision is made is inaccurate 42) ______________

43) A type of assurance service in which an auditing firm issues a report about the reliability of an assertion that is the responsibility of another party. 43) ______________

44) The process of investigating cases of fraud in the company's financial statements, accounting books and records, and any other documents used in the company's operations that may be used in white-collar crime. 44) ______________

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

45) The criteria by which an auditor evaluates the information under audit may vary with the information being audited. 45) ______

46) The criteria used by an external auditor to evaluate published financial statements are known as auditing standards. 46) _______

47) The Sarbanes-Oxley Act establishes standards related to the audits of privately held companies. 47) _______

48) The Sarbanes-Oxley Act is widely viewed as having ushered in sweeping changes to auditing and financial reporting. 48) _______

49) Companies that file annual statements with a capital market authority are required to have an audit of the effectiveness of their internal controls. 49) _______

50) Working as a GAO auditor or as an internal auditor fulfils the experience requirement for becoming a licensed accountant in many Arab countries. 50) _______

51) The primary purpose of a compliance audit is to determine whether the financial statements are prepared in compliance with IFRS. 51) _______

52) Results of compliance audits are typically reported to someone within the organizational unit being audited rather than to a broad spectrum of outside users. 52) _______

53) The use of assurance and attestation services for online information and other IT services is widespread in the Arab world. 53) _______

54) Audit firms are never allowed to provide bookkeeping services for their clients. 54) _______

55) Section 404 of the Sarbanes-Oxley Act requires U.S. public companies to have an external auditor attest to their internal control over financial reporting. 55) _______

56) The organization providing guidelines and licenses for forensic auditors is the International Auditing and Assurance Standards Board. 56) _______

57) A review of a company's wage rates for compliance with minimum wage legislation is an operational audit. 57) _______

58) An auditor provides a moderate level of assurance for reviews of interim financial statements so the same level of evidence is needed as for a full audit. 58) _______

59) External users such as stockholders and lenders who rely on those financial statements to make business decisions look to the auditor's report as an indication of the statements' reliability. 59) _______

60) For the audit of tax returns by a local tax authority, the criteria for evaluating the information are found in the international tax law. 60) _______

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

61) Which one of these following is not covered in the general principles and responsibilities section of the International Standards on Auditing? 61) _______
A) Agreeing the terms of audit engagements.
B) Communication with those charged with governance.
C) Audit documentation.
D) Planning an audit of financial statements.

62) Which one of the following is not one of the three general standards in the GAAS framework? 62) _______
A) Maintain independence of mental attitude.
B) Have adequate training and proficiency.
C) Ensure proper planning and supervision.
D) Exercise due professional care.

63) Which one of these following is not covered in the audit evidence section of the International Standards on Auditing? 63) _______
A) Communication with those charged with governance.
B) Going concern.
C) Analytical procedures.
D) External confirmations.

64) Which one of the following is not a field work standard in the GAAS framework? 64) _______
A) Understand the entity and its environment including internal control.
B) Exercise due professional care.
C) Adequate planning and supervision.
D) Sufficient appropriate audit evidence.

65) The GAAS general standards stress the: 65) _______
A) evidence accumulation process.
B) need to communicate the auditor's findings to the user.
C) important personal qualities the auditor should possess.
D) general supervision of the audit.

66) The generally accepted auditing standard that requires 'adequate technical training and proficiency' is normally interpreted as requiring the auditor to have: 66) _______
A) a graduate degree in a business field.
B) worked for an entity similar to the entity being audited.
C) independence in mental attitude.
D) formal education in auditing and accounting.

67) The generally accepted auditing standard that requires 'adequate technical training and proficiency' is normally interpreted as requiring the auditor to have: 67) _______
A) worked for an entity similar to the entity being audited.
B) formal education in auditing and accounting.
C) independence in mental attitude.
D) a graduate degree in a business field.

68) The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) prepares accounting, auditing, governance, ethics and Shari'a standards for Islamic financial institutions. The AAOIFI: 68) _______

A) only operates within Arab countries.
B) is a division of the International Auditing and Assurance Standards Board.
C) was established by the Islamic Financial Services Board.
D) is an independent international organization.

69) Members of the Public Company Accounting Oversight Board are appointed and overseen by: 69) _______

A) the U.S. Congress.
B) the American Institute of Certified Public Accountants.
C) the Auditing Standards Board.
D) the Securities and Exchange Commission.

70) Which of the following statements most accurately captures the intent of the standards of field work? 70) _______

A) Field work standards are primarily concerned with personal attributes necessary during the conduct of the audit.
B) Field work standards are primarily concerned with preparing a report on a company's financial statements.
C) Field work standards are primarily concerned with evidence accumulation and other activities during the conduct of the audit.
D) Field work standards are primarily concerned with the conduct of substantive testing as opposed to testing of internal controls.

71) Prior to the passage of the Sarbanes-Oxley Act, which of the following was responsible for establishing auditing standards? 71) _______

A) Auditing Standards Board.
B) Securities and Exchange Commission.
C) National Association of Accounting.
D) Public Company Accounting Oversight Board.

72) In the U.S. standards issued by the Public Company Accounting Oversight Board must be followed by CPAs who audit: 72) _______

A) both private and public companies.
B) private companies only.
C) private companies, public companies, and nonprofit entities.
D) public companies only.

73) GAAS, SASs, and ISAs should be looked on by practitioners as ________ standards of performance. 73) _______

A) minimum B) prescriptive C) professional D) maximum

74) Which of the following is the least likely form of business structure for a CPA firm? 74) _______

A) General corporation. B) Proprietorship.
C) General partnership. D) Limited liability partnership.

75) The Statements on Auditing Standards issued by the Auditing Standards Board: 75) _______
A) are the equivalent of laws for audit practitioners.
B) are optional guidelines which an auditor may choose to follow or not follow when conducting an audit.
C) must be followed in all situations.
D) are interpretations of GAAS.

76) An auditor need not abide by a particular auditing standard if the auditor believes that: 76) _______
A) the issue in question is immaterial in amount.
B) more expertise is needed to fulfill the requirement.
C) the requirement of the standard has not been addressed by the PCAOB.
D) any of the above three are correct.

77) In the U.S., the Public Company Accounting Oversight Board does not: 77) _______
A) perform inspections of the quality controls at audit firms that audit public companies.
B) oversee auditors of public companies.
C) establish auditing standards that must be followed by auditors on all audits.
D) perform any of the above functions.

78) The form that must be completed and filed with the Securities and Exchange Commission whenever a U.S. public company experiences a significant event that is of interest to public investors is the: 78) _______
A) Form 10-Q. B) Form S-1. C) Form 10-K. D) Form 8-K.

79) The form that must be filed with the Securities and Exchange Commission whenever a U.S. public company plans to issue new securities to the public is the: 79) _______
A) Form S-1. B) Form 8-K. C) Form 10-Q. D) Form 10-K.

80) Which of these international standards are published by the International Auditing and Assurance Standards Board? 80) _______
A) International Standards on Review Engagements.
B) International Standards on Related Services.
C) International Standards on Quality Control.
D) All of the above.

81) Which of the following statements best describes the primary purpose of Statements on Auditing Standards? 81) _______
A) They are procedural outlines that are intended to narrow the areas of inconsistency and divergence of auditor opinion.
B) They are authoritative statements and are intended to limit the degree of auditor judgment.
C) They are guides intended to set forth auditing procedures that are applicable to a variety of situations.
D) They are interpretations that are intended to clarify the meaning of 'generally accepted auditing standards.'

82) International Standards on Review Engagements are issued by the: 82) _______
A) Financial Accounting Standards Board.
B) International Auditing and Assurance Standards Board.
C) Islamic Financial Services Board.
D) Securities and Exchange Commission.

83) The auditor's judgment concerning the overall presentation of the audit entity's financial position is applied within the framework of: 83) ______
- A) the auditor's evaluation of the audited company's internal control.
- B) auditing standards–either International Standards on Auditing, generally accepted auditing standards, or local auditing standards–which include the concept of materiality.
- C) quality control.
- D) accounting standards–either International Financial Reporting Standards, generally accepted accounting principles, or local accounting standards.

84) A basic objective of a CPA firm is to provide professional services to conform to professional standards. Reasonable assurance of achieving this basic objective is provided through: 84) ______
- A) continuing professional education.
- B) compliance with generally accepted reporting standards.
- C) a system of peer review.
- D) a system of quality control.

85) Within the context of quality control, the primary purpose of continuing professional education and training activities is to enable a CPA firm to provide its personnel with: 85) ______
- A) knowledge required to perform a peer review.
- B) knowledge required to fulfill assigned responsibilities.
- C) professional education that is required in order to perform with due professional care.
- D) technical training that assures proficiency as a valuation expert.

86) Williams & Co., a U.S. audit firm, is to have a 'peer review.' The peer review can be performed by: 86) ______
- A) another audit firm selected by Williams & Co.
- B) a review team selected by the state society.
- C) internal auditors.
- D) either A or B.

87) Which of the following is not an essential component of quality control? 87) ______
- A) Policies and procedures to ensure that firm personnel are actively engaged in marketing strategies.
- B) Policies and procedures to ensure that the work performed by firm personnel meet applicable professional standards.
- C) Policies to ensure that personnel maintain their independence in fact and in appearance.
- D) Policies that ensure that monitoring activities are effectively applied.

88) Which of these statements about quality reviews undertaken by international CPA networks in the Arab world is not true? 88) ______
- A) The review includes an evaluation of the internal system of the member, including the firm's working papers and audit manual.
- B) The member being reviewed selects partners and managers of other member firms within the network to conduct the review.
- C) Each CPA network carries out an interim review of its members' quality of services using standard practices applied within the network.
- D) Those carrying out reviews of other firms must be located in the same geographical area where there are common features relating to the accounting and auditing profession.

89) The American Institute of Certified Public Accountants (AICPA) has authority to establish standards and rules in all but which of the following areas? 89) _______

A) Compilation and review standards.

B) Auditing standards applicable to financial statements of private and public companies.

C) Auditing standards applicable to financial statements of private companies.

D) Professional conduct.

90) ISAs, GAAS, and SASs should be looked upon by practitioners as: 90) _______

A) minimum standards of performance that must be achieved on each audit engagement.

B) benchmarks to be used on all audits, reviews, and compilations.

C) maximum standards that denote excellent work.

D) ideals to work towards, but which are not achievable.

91) Statements on Auditing Standards issued by the AICPA's Auditing Standards Board are: 91) _______

A) part of the generally accepted auditing standards under the AICPA *Code of Professional Conduct*.

B) generally accepted auditing procedures that are not covered by the AICPA *Code of Professional Conduct*.

C) interpretations of generally accepted auditing standards and departures from such statements must be justified.

D) interpretations of generally accepted auditing standards and such standards must be followed in every engagement.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

92) Discuss the relationship between quality control and auditing standards.

93) Describe the various staff levels and responsibilities of a typical public accounting firm.

94) Discuss the six elements of quality control. Who establishes the standards for quality control?

95) Distinguish between International Standards on Auditing (ISAs) and International Financial Reporting Standards (IFRS). What organization establishes ISAs? What organization establishes IFRS? What are the equivalent standards called in the U.S.?

96) There are ten generally accepted auditing standards, divided into three categories. List, by category, each of these ten standards.

97) The International Standards on Auditing are organized into six main parts. List these parts.

98) In the context of auditing, explain what is meant by an independent mental attitude. Discuss how internal auditors can have an independent mental attitude when they are employed by the company they audit.

99) The Sarbanes-Oxley Act established the Public Company Accounting Oversight Board (PCAOB). What are the PCAOB's primary functions? Who performed these functions prior to the PCAOB?

100) What are four of the major functions of the AICPA?

101) Explain the concept of Islamic accounting and discuss the purpose of the Accounting and Auditing Organization for Islamic Institutions and its influence on setting generally accepted accounting principles.

102) Discuss the quality control measures introduced for audit firms in Saudi Arabia by the Saudi Organization for Certified Public Accountants (SOCPA)?

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

103) There is a joint partnership between the International CPA networks and local accountant(s) in every Arab country 103) ______

104) CPA firms in most countries in the Arab world are permitted to be general corporations. 104) ______

105) To be a member of the Egyptian Society of Accountants and Auditors (ESAA) accountants must pass three levels of examination. 105) ______

106) In the United Arab Emirates, accountants are not allowed to work as auditors unless their names are listed in the register of practicing auditors maintained by the Ministry of Economy and Commerce. 106) ______

107) Membership in the AICPA is restricted to CPAs who are currently practicing as independent auditors. 107) ______

108) Membership in the AICPA is mandatory for all licensed practicing CPAs. 108) ______

109) Any graduate wishing to join the AICPA needs to travel to U.S. to take the AICPA exams. 109) ______

110) Statements on Auditing Standards (SASs) are issued by the Public Company Accounting Oversight Board. 110) ______

111) Form 10-K must be filed with the SEC whenever a public company experiences a significant event. 111) ______

112) Most CPA firms have specialists who spend a large portion of their time ensuring that their clients satisfy all SEC requirements. 112) ______

113) When auditing a public company, the International Standards on Auditing override a country's regulations governing the audit of financial or other information. 113) ______

114) The Egyptian Standards on Auditing (ESA) are based on the ISAs and translated into Arabic. 114) ______

115) The Auditing Standards Board (ASB) has no plans to converge U.S. GAAS with the ISAs and align its agenda with the IAASB. 115) ______

116) All CPA firms registered with the PCAOB are required to undergo a peer review at least once every two years. 116) ______

117) Statements on Auditing Standards (SASs) are considered to be interpretations of the ten generally accepted auditing standards. 117) ______

118) Any CPA firm in the U.S. that audits more than 100 public companies is required to have an annual inspection by the PCAOB. 118) ______

119) One of the purposes of the Securities and Exchange Commission is to assist in providing investors with reliable information upon which to make investment decisions. 119) ______

120) International Standards on Auditing are issued by the International Auditing Practices Committee. 120) ______

121) In the Arab world, the review of the quality of the audit provided by auditing firms is undertaken by the international CPA networks. 121) ______

122) In Egypt, the Egyptian Society of Accountants and Auditors has established a unit responsible for monitoring the quality of services provided by registered audit firms with the Capital Market Authority. 122) ______

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

123) Auditing standards require that the audit report must be titled and that the title must: 123) ______

A) include the word 'independent.'
B) indicate if the auditor is a proprietorship, partnership, or incorporated.
C) indicate if the auditor is a CPA.
D) indicate the type of audit opinion issued.

124) To emphasize the fact that the auditor is independent, a typical addressee of the audit report could be: 124) ______

	Company Controller	Shareholders	Board of Directors
A)	No	Yes	Yes
B)	No	No	Yes
C)	Yes	Yes	No
D)	Yes	No	No

125) The purpose of the introductory paragraph in the standard unmodified report is: 125) ______

A) to identify the financial statements audited and the dates and time periods covered by the report.
B) to indicate the auditor followed applicable audit standards.
C) to identify that the type of opinion issued is unmodified.
D) to indicate all the financial statements are in accordance with IFRS or local accounting standards.

126) The auditor's responsibility paragraph of the standard unmodified audit report states that the audit is designed to: 126) ______

A) conform to IFRS or local accounting standards.
B) discover material errors and/or irregularities.
C) obtain reasonable assurance whether the statements are free of material misstatement.
D) discover all errors and/or irregularities.

127) As a result of management's refusal to permit the auditor to physically examine inventory, the auditor has not accumulated sufficient appropriate evidence to conclude whether financial statements are stated in accordance with IFRS. The auditor must depart from the unmodified audit report because: 127) ______

A) the scope of the audit has been restricted by circumstances beyond either the client's or auditor's control.
B) the financial statements have not been prepared in accordance with IFRS.
C) the auditor has lost independence.
D) the scope of the audit has been restricted.

128) An adverse opinion is issued when the auditor believes: 128) ______

A) the auditor is not independent.
B) some parts of the financial statements are materially misstated or misleading.
C) the overall financial statements are so materially misstated that they do not present fairly the financial position or results of operations and cash flows in conformity with IFRS.
D) the financial statements would be found to be materially misstated if an investigation were performed.

129) If a misstatement is immaterial to the financial statements of the entity for the current period, but is expected to have a material effect in future periods, it is appropriate to issue a(n): 129) ______

A) unmodified opinion.
B) adverse opinion.
C) qualified opinion.
D) disclaimer of opinion.

130) Whenever an auditor issues an audit report for a public company in the U.S., the auditor can choose to issue a report in which of the following forms? 130) ______

A) A combined report on financial statements and internal control over financial reporting.
B) Separate reports on financial statements and internal control over financial reporting.
C) Either A or B.
D) Neither A nor B.

131) When determining whether an exception is 'highly material,' the extent to which the exception affects different elements of the financial statements must be considered. This concept is called: 131) ______

A) ratio analysis.
B) financial analysis.
C) pervasiveness.
D) materiality.

132) An auditor determines the financial statements include a material departure from IFRS. Which type of opinion may be issued? 132) ______

	Disclaimer	Qualified	Adverse
A)	Yes	No	No
B)	No	Yes	No
C)	No	Yes	Yes
D)	Yes	No	Yes

133) Examples of unmodified opinions which contain modified wording (without adding an emphasis of matter or other matter paragraph) include: 133) ______

A) substantial doubt about the audited company (or the entity) continuing as a going concern.
B) material uncertainties.
C) lack of consistent application of IFRS.
D) the use of other auditors.

134) A CPA may wish to emphasize specific matters regarding the financial statements even though an unmodified opinion will be issued. Normally, such explanatory information is: 134) ______

A) included in a separate paragraph in the report.
B) included in the opinion paragraph.
C) included in the auditor's responsibility paragraph.
D) included in the introductory paragraph.

135) When the auditor evaluates the effect of a change in accounting principle, the materiality of the change should be evaluated based on: 135) ______

A) the effect on total assets.
B) the prior years presented.
C) guidelines included in auditing standards.
D) the current year effect of the change.

136) Conditions requiring a departure from an unmodified audit report include all but which of the following? 136) ______

A) Management refused to allow the auditor to confirm significant accounts receivable for which there were no alternative procedures performed.
B) Management has determined that fixed assets should be reported in the balance sheet at their replacement values rather than historical costs. The auditors do not concur.
C) Management decided not to allow the auditor to confirm significant accounts receivable, but the auditor obtained sufficient appropriate evidence by examining subsequent cash receipts.
D) The audit partner's dependent child received a gift of 100 shares of a client's stock for her birthday from a grandparent.

137) The introductory paragraph of the standard audit report states that the financial statements are: 137) ______

A) the responsibility of management.
B) the joint responsibility of management and the auditor.
C) the responsibility of the auditor.
D) none of the above.

138) PCAOB Auditing Standard 5 requires the audit of internal control over financial reporting to be integrated with: 138) ______

A) the review of annual financial statements.
B) the audit of the financial statements.
C) the quarterly review of financial information.
D) none of the above.

139) The audit report indicates that (1) management is responsible for the content of the financial statements and (2) the auditor is responsible for evaluating the appropriateness of the accounting principles chosen by management. Which paragraph contains those statements? 139) ______

A) Both are in the opinion paragraph.
B) Both are in the management's responsibility paragraph.
C) Both are in the introductory paragraph.
D) None of the above are true.

140) If the balance sheet of a company is dated December 31, 2012, the audit report is dated February 8, 2013, and both are released on February 15, 2013, this indicates that the auditor has searched for subsequent events that occurred up to: 140) ______

A) February 15, 2013.
B) February 8, 2013.
C) December 31, 2012.
D) January 1, 2013.

141) Whenever an auditor issues a qualified opinion, the implication is that the auditor: 141) ______
A) believes the financial statements are presented fairly 'except for' a specific aspect of them.
B) does not know if the financial statements are presented fairly.
C) does not believe the financial statements are presented fairly.
D) believes the financial statements are presented fairly.

142) The necessity to issue a disclaimer of opinion may arise because of: 142) ______
A) a lack of independence between the auditor and client.
B) a severe limitation on the scope of the audit.
C) either A or B.
D) neither A nor B.

143) When the auditor determines the financial statements are fairly stated and then determines that the he or she lacks independence, the auditor should issue: 143) ______
A) an adverse opinion.
B) a disclaimer of opinion.
C) either a qualified opinion or an adverse opinion.
D) either a qualified opinion or an unmodified opinion with modified wording.

144) If the auditor lacks independence, a disclaimer of opinion must be issued: 144) ______
A) only if it is highly material.
B) if the client requests it.
C) in all cases.
D) only if it is material but not highly material.

145) Misstatements must be compared with some measurement base before a decision can be made about materiality. A commonly accepted measurement base includes: 145) ______
A) net income. B) working capital.
C) total assets. D) all of the above.

146) When comparing misstatements with a measurement base, the auditor must consider the pervasiveness of the misstatement. Of the following examples, the most pervasive misstatement is a(n): 146) ______
A) understatement of retained earnings caused by a miscalculation of dividends payable.
B) understatement of inventory.
C) misclassification of notes payable as a long-term liability when it should be current.
D) misclassification of salary expense as a selling expense when it should be allocated equally to both selling and administrative expense.

147) The dollar amount of some misstatements cannot be accurately measured. For example, if the client were unwilling to disclose an existing lawsuit, the auditor must estimate the likely effect on: 147) ______
A) management's future decisions. B) the auditor's exposure to lawsuits.
C) net income. D) users of the financial statements.

148) Whenever there is a scope restriction, the appropriate response is to issue a(n): 148) ______
A) qualified opinion.
B) adverse opinion.
C) unmodified report, a qualification of scope and opinion, or a disclaimer, depending on materiality.
D) disclaimer of opinion.

149) Which of the following is least likely to cause uncertainty about the ability of an entity to continue as a going concern? 149) ______

A) Working capital deficiencies.
B) Significant recurring operating losses.
C) Loss of major customers.
D) A client's lawsuit against another company which claims the other company has infringed on its patent.

150) The client has presented all required financial statements with the exception of the statement of cash flows. The auditor has completed the audit and is satisfied that all other statements are presented fairly. The auditor: 150) ______

A) may issue either an unmodified or a qualified opinion.
B) must issue a qualified opinion with 'except for' in the opinion paragraph.
C) may issue an unmodified opinion.
D) must issue an adverse opinion with 'except for' in the opinion paragraph.

151) When a client has not applied IFRS consistently from the prior year to the current year, the auditor does not concur with the appropriateness of the change, and the change in IFRS has a material effect on the financial statements, the auditor should issue a(n): 151) ______

A) unmodified opinion.
B) disclaimer.
C) qualified opinion.
D) adverse opinion.

152) Which of the following is not a change that affects consistency and, therefore, does not require an emphasis of matter paragraph? 152) ______

A) Change in an estimate, such as a decrease in the life of an asset for depreciation purposes.
B) Correction of errors by changing from non-IFRS to IFRS.
C) Change in accounting principle, such as a change from LIFO to FIFO.
D) Change in reporting entity, such as the inclusion of an additional company in combined financial statements.

153) Items that materially affect the comparability of financial statements generally require disclosure in the footnotes. If the client refuses to properly disclose the item, the auditor will most likely issue: 153) ______

A) a qualified opinion.
B) an unmodified opinion.
C) a disclaimer.
D) an adverse opinion.

154) When there is uncertainty about a company's ability to continue as a going concern, the auditor's concern is the possibility that the client may not be able to continue its operations or meet its obligations for a 'reasonable period of time.' For this purpose, a reasonable period of time is considered not to exceed: 154) ______

A) six months from the date of the financial statements.
B) six months from the date of the audit report.
C) one year from the date of the audit report.
D) one year from the date of the financial statements.

155) When the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern, the appropriate audit report would be: 155) ______

A) a disclaimer of opinion.
B) an unmodified opinion with an emphasis of a matter paragraph.
C) neither A nor B.
D) either A or B.

156) An auditor may not issue a qualified opinion when: 156) ______
A) the auditor lacks independence with respect to the audited entity.
B) an accounting principle at variance with IFRS is used.
C) the auditor's report refers to the work of a specialist.
D) a scope limitation prevents the auditor from completing an important audit procedure.

157) When a company's financial statements contain a departure from IFRS with which the auditor concurs, the departure should be explained in: 157) ______
A) the opinion paragraph.
B) the management's responsibility paragraph.
C) an emphasis of a matter paragraph that appears before the opinion paragraph.
D) an emphasis of a matter paragraph after the opinion paragraph.

158) Which of the following representations does an auditor make explicitly and which implicitly when issuing an unmodified opinion? 158) ______

	Conformity with IRFS or local accounting standards	Adequacy of disclosure			
A)	Explicitly	Explicitly	B)	Explicitly	Implicitly
C)	Implicitly	Explicitly	D)	Implicitly	Implicitly

159) Karim Seghir is the principal auditor for a multinational corporation. Another CPA has examined and reported on the financial statements of a significant subsidiary of the corporation. Seghir is satisfied with the independence and professional reputation of the other auditor, as well as the quality of the other auditor's examination. With respect to his report on the consolidated financial statements, taken as a whole, Seghir: 159) ______
A) must not refer to the examination of the other auditor.
B) must refer to the examination of the other auditor.
C) may refer to the examination of the other auditor.
D) may refer to the examination of the other auditor, in which case Seghir must include in the auditor's report on the consolidated financial statements a qualified opinion with respect to the examination of the other auditor.

160) A company has changed its method of inventory valuation from an unacceptable one to one in conformity with IFRS. The auditor's report on the financial statements of the year of the change should include: 160) ______
A) a reference to a prior period adjustment in the opinion paragraph.
B) an emphasis of matter paragraph explaining the change.
C) no reference to consistency.
D) an emphasis of matter paragraph that justifies the change and explains the impact of the change on reported net income.

161) Whenever the client imposes restrictions on the scope of the audit, the auditor should be concerned that management may be trying to prevent discovery of misstatements. In such cases, the auditor will likely issue a: 161) ______
A) disclaimer of opinion whenever materiality is in question.
B) qualification of both scope and opinion in all cases.
C) qualification of both scope and opinion whenever materiality is in question.
D) disclaimer of opinion in all cases.

162) Auditors issue several types of 'special audit reports.' Which of the following circumstances would not require the issuance of a special audit report? 162) ______

A) The auditor has been retained to audit only the current assets.
B) The auditor has been retained to review the internal control system, not the financial statements.
C) The client's financial statements are prepared using the accrual basis.
D) The client's financial statements are prepared using the cash basis.

163) When a qualified or adverse opinion is issued, the qualifying paragraph stating the basis for the qualified or adverse opinion is inserted: 163) ______

A) between the introductory and management responsibility paragraphs.
B) after the opinion paragraph, as a fifth paragraph.
C) between the auditor's responsibility and opinion paragraphs.
D) immediately after the audit report address, as the first paragraph.

164) Most auditors believe that financial statements are 'presented fairly' when the statements are in accordance with IFRS or local accounting standards, and that it is also necessary to: 164) ______

A) examine the substance of transactions and balances for possible misinformation.
B) assure investors that net income reported this year will be exceeded in the future.
C) determine that they are not in violation of IAASB statements.
D) review the statements using any accounting principles promulgated by the relevant capital market authority.

165) In which of the following situations would the auditor most likely issue an unmodified report? 165) ______

A) The client valued ending inventory by using the First-In-First-Out (FIFO) method, but showed the replacement cost of inventory in the notes to the financial statements.
B) The client valued ending inventory by using the replacement cost method.
C) The client valued ending inventory at selling price rather than historical cost.
D) The client valued ending inventory by using the Next-In-First-Out (NIFO) method.

166) Which of the following statements is true? 166) ______

A) The auditor is required to issue a disclaimer of opinion in the event of a material uncertainty.
B) The auditor is required to issue a disclaimer of opinion in the event of a going concern problem.
C) The auditor has the option, but is not required, to issue a disclaimer of opinion for a material uncertainty or for a going concern problem.
D) The auditor is required to issue a disclaimer of opinion for a material uncertainty and for a going concern problem.

167) When misstatements are so material that an adverse opinion is issued, the auditor's responsibility paragraph would be: 167) ______

A) qualified.
B) expanded to identify the additional procedures which the auditor performed.
C) deleted.
D) unchanged except for the last sentence.

168) When the client fails to make adequate disclosure in the body of the statements or in the related footnotes, it is the responsibility of the auditor to: 168) ______

A) inform the reader that disclosure is not adequate, and to issue an adverse opinion.
B) present the information in the audit report and issue an unmodified or qualified opinion.
C) inform the reader that disclosure is not adequate, and to issue a qualified opinion.
D) present the information in the audit report and to issue a qualified or an adverse opinion.

169) The unmodified report with an emphasis of a matter or other matter paragraph: 169) ______

A) arises as a result of an incomplete audit.
B) meets the criteria of a complete audit but with unsatisfactory results.
C) meets the criteria of a complete audit with satisfactory results.
D) arises when the financial statements are not 'presented fairly.'

170) Which of the following will not cause the auditor to issue a standard unmodified report with an emphasis of matter paragraph or modified wording? 170) ______

A) Auditor disagrees with client's departure from IFRS.
B) Reports involving other auditors.
C) Matters presented in the financial statements are of such importance that they are fundamental to users' understanding of the financial statements.
D) Lack of consistent application of IFRS.

171) Which of the following is not one of the principal auditor's alternatives when issuing a report if a different auditor performed part of the audit? 171) ______

A) Make no reference to the other auditor in the audit report, and issue the standard unmodified opinion.
B) A qualified opinion or disclaimer, depending on materiality, is required if the principal auditor is not willing to assume any responsibility for the work of the other auditor.
C) Make reference to the other auditor in the report by using modified wording (a shared opinion or report).
D) Issue a joint report signed by both auditors.

172) If a client's financial statements adequately disclose uncertainties that concern future events, the outcome of which are not reasonably estimable. The auditor's report should include a(n): 172) ______

A) 'except for' qualified opinion.
B) unmodified opinion.
C) disclaimer.
D) adverse opinion.

173) Indicate which changes would require an emphasis of a matter paragraph in the audit report. 173) ______

	Correction of an error by changing from an accounting principle that is not generally acceptable to one that is generally acceptable	Change from LIFO to FIFO
A)	Yes	No
B)	No	Yes
C)	Yes	Yes
D)	No	No

174) Indicate which changes would require an emphasis of a matter paragraph in the audit report. 174) ______

	Change in the estimated life of an asset	Variation in the format of the financial statement
A)	Yes	No
B)	No	No
C)	Yes	Yes
D)	No	Yes

175) Indicate which changes would require an emphasis of a matter paragraph in the audit report. 175) ______

	The CPA concludes there is substantial doubt about the entity's ability to continue as a going concern	Change from FIFO to LIFO
A)	Yes	No
B)	No	No
C)	Yes	Yes
D)	No	Yes

176) The reasons for expressing a qualified opinion due to a departure from IFRS are expressed in a paragraph: 176) ______

A) either preceding or following the opinion paragraph, depending on materiality.
B) following the opinion paragraph.
C) preceding the management responsibility paragraph.
D) following the auditor's responsibility paragraph.

177) In which situation would the auditor be choosing between a qualified opinion and an adverse opinion? 177) ______

A) Lack of full disclosure required by footnotes.
B) The auditor lacks independence.
C) A circumstance-imposed scope restriction.
D) A client-imposed scope restriction.

178) When an auditor encounters a situation involving more than one of the conditions requiring a departure from a standard unmodified report, the auditor should modify his or her opinion for each condition unless one has the effect of neutralizing the others. In which of the following situations would the auditor not include more than one modification in the report? 178) ______

A) There is a material scope limitation, and the auditor is not independent.
B) There is a substantial doubt about the company's ability to continue as a going concern, and information about the causes of the uncertainties is not adequately disclosed in a footnote.
C) There is a material IFRS violation, and the auditor is not independent.
D) There is a material scope limitation, and there is substantial doubt about the company's ability to continue as a going concern.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

179) Discuss how materiality affects audit reporting decisions.

180) Discuss why an audit report does not offer absolute assurance that financial statements give and true and fair picture of a company's financial position.

181) There are four conditions that must be met before an auditor can issue a standard unmodified report for the audit of a private company. Please discuss each of these four conditions.

182) There are three conditions requiring a departure from an unmodified audit report. Discuss each of these three conditions and state the appropriate audit report for each condition.

183) In certain circumstances, an auditor will issue an unmodified report, but the wording will differ from that of a standard unmodified report. Discuss circumstances when an auditor would issue an unmodified report with an explanatory paragraph or modified wording.

184) An audit report prepared by Hassan & Co. is provided below. The audit for the year ended December 31, 2012 was completed on March 1, 2013, and the report was issued to Javlin Corporation, a private company, on March 13, 2013. List any deficiencies in this report. Do not rewrite the report.

We have examined the accompanying financial statements of Jacob Corporation as of December 31, 2012. Management is responsible for the preparation and fair presentation of these financial statements.

Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with International Financial Reporting Standards. Those standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of misstatement.
An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the effects of not capitalizing certain lease obligations that should be capitalized in order to conform with IFRS, the financial statements referred to above present accurately the financial position of Javlin Corporation as of December 31, 2012, in conformity with IFRS and applicable laws and regulations.

Hassan & Co
March, 2013

185) Describe the standard unmodified audit report. Specify the ten parts of the report, and then discuss the contents of each part.

186) Outline the three stage process for deciding the appropriate audit report to issue.

187) Describe an auditor's responsibilities in respect of the information in documents accompanying audited financial statements.

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

Assume you are the partner in charge of the 2012 audit of Bashir Corporation, a private company. The audit report has not yet been prepared. In each independent situation following, indicate the appropriate action (a-g) to be taken. The possible actions are as follows:

a. Issue a standard unmodified audit report.
b. Issue an qualified report in the form of a qualification of both the scope and opinion.
c. Issue an qualified report in the form of a qualification of the opinion only.
d. Issue an unmodified opinion with an emphasis of a matter paragraph.
e. Issue an unmodified opinion with modified wording.
f. Issue an adverse opinion.
g. Disclaim an opinion.

188) Bashir Corporation carries its property, plant, and equipment accounts at current market values. Current market values exceed historical cost by a highly material amount, and the effects are pervasive throughout the financial statements. 188) ____________

189) Management of Bashir Corporation refuses to allow you to observe, or make, any counts of inventory. The recorded book value of inventory is highly material. 189) ____________

190) You were unable to confirm accounts receivable with Bashir's customers. However, because of detailed sales and cash receipts records, you were able to perform reliable alternative audit procedures. 190) ____________

191) One week before you complete auditing procedures in the field, you discover that the audit manager on the Bashir engagement owns a material amount of Bashir's common stock. 191) ____________

192) You relied upon another auditing firm to perform part of the audit. Although you were the principal auditor, the other firm audited a material portion of the financial statements. You wish to refer to the other firm in your report. 192) ____________

193) You have substantial doubt about Bashir's ability to continue as a going concern. 193) ____________

194) Bashir Corporation changed its method of computing depreciation in 2012. You concur with the change and the change is properly disclosed in the financial statement footnotes. 194) ____________

195) Ten days after the balance sheet date, one of Bashir's buildings was destroyed by a fire. Bashir refuses to disclose this information in a footnote to the financial statements, but you believe disclosure is required to conform with IFRS. The amount of the uninsured loss was material, but not highly material. 195) ____________

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

196) Audit reports issued for financial statements should refer to auditing standards in the auditor's responsibility paragraph. 196) ______

197) A qualified report is issued when all auditing conditions have been met, no significant misstatements have been discovered, and it is the auditor's opinion that the financial statements are fairly stated in accordance with IFRS. 197) ______

198) The audit report is normally addressed to the company's president or chief executive officer. 198) ______

199) In the U.S., auditors of public company financial statements must issue separate reports on internal control over financial reporting. 199) ______

200) When an auditor decides that adherence to IFRS would result in misleading financial statements, the auditor has no choice but to issue a qualified audit report. 200) ______

201) Auditors should issue a disclaimer of opinion when there is a highly material scope restriction caused by the client. 201) ______

202) Whenever an auditor issues a qualified report, he or she must use the term 'except for' in the opinion paragraph. 202) ______

203) Whenever an auditor issues a qualified report, he or she must use the term 'subject to' in the opinion paragraph. 203) ______

204) Whenever an auditor discovers a highly material IFRS violation in the financial statements that the client refuses to correct, the auditor should issue a disclaimer of opinion. 204) ______

205) When there is a scope limitation in an audit, the audit report will be unmodified, qualified, or adverse, depending on the materiality of the scope limitation. 205) ______

206) When a qualified opinion is issued, a paragraph is added immediately after the opinion paragraph to explain the nature of the qualification that affects the opinion. 206) ______

207) If an audit client has not consistently applied accounting principles, and the auditor does not concur with the appropriateness of the change, either an unmodified, a qualified, or an adverse opinion should be issued, depending on the materiality level involved. 207) ______

208) An auditor should issue a qualified opinion whenever there is a material uncertainty affecting the financial statements. 208) ______

209) The phrase 'The audit is designed to obtain reasonable assurance about whether the statements are free of material misstatements' is included in the introductory paragraph of an audit report. 209) ______

210) If an auditor is not independent and the auditor knows that the company has not followed IFRS, the auditor should immediately disclaim an opinion and not mention the departure from IFRS in the audit report. 210) ______

1) D
2) A
3) D
4) B
5) C
6) B
7) A
8) D
9) C
10) C
11) D
12) A
13) D
14) D
15) A
16) D
17) D
18) D
19) B
20) A
21) C
22) C
23) D
24) C
25) C
26) The four primary requirements for becoming an accountant are:
   - Must be a national of the state with a minimum age of 25.
   - Holder of a bachelor's degree in accounting or its equivalent from a recognized university.
   - Five to seven years of work experience in audit firm or accounting and auditing function of private or public company or government ministry.
   - Has passed the CPA exams or their equivalents set by the local audit professional association or a holder of the United Kingdom audit professional certificates.
27) While both services involve the accumulation and evaluation of evidence regarding assertions made by management in the company's financial statements, a review involves a less extensive examination and provides a lower level of assurance about the client's financial statements than an audit.

28) The role of accountants is to record, classify, and summarize economic events in a logical manner for the purpose of providing financial information for decision making. To do this, accountants must have a sound understanding of the principles and rules that provide the basis for preparing the financial information. In addition, accountants are responsible for developing systems to ensure that the entity's economic events are properly recorded on a timely basis and at a reasonable cost.
   The role of auditors is to determine whether the financial information prepared by accountants properly reflects the economic events that occurred. To do this, the auditor must not only understand the principles and rules that provide the basis for preparing financial information, but must also possess expertise in the accumulation and evaluation of audit evidence. It is this latter expertise that distinguishes auditors from accountants.

29) Financial statement audits, operational audits, and compliance audits are similar in that each type of audit involves accumulating and evaluating evidence about information to ascertain and report on the degree of correspondence between the information and established criteria. The differences between each type of audit are the information being examined and the criteria used to evaluate the information. An example of a financial statement audit would be the annual audit of a major public corporation, in the external auditors examine the company's financial statements to determine the degree of correspondence between those financial statements and IFRS. An example of an operational audit would be an internal auditor's evaluation of whether a company's computerized payroll-processing system is operating efficiently and effectively. An example of a compliance audit would be a tax inspector's examination of an entity's tax return to determine the degree of compliance with applicable tax laws.

30) The roles of all four types of auditors are similar in that they involve the accumulation and evaluation of evidence about information to ascertain and report on the degree of correspondence between the information and established criteria. The differences in their roles center around the information audited and the criteria used to evaluate that information. Independent auditors primarily audit companies' financial statements. GAO auditors' primary responsibility is to perform the audit function for governments or legislatures. Tax inspectors are responsible for the enforcement of tax laws. Internal auditors primarily perform operational and compliance audits for their employing company.

31) The information used by an auditing firm in a financial statement audit is the financial information in the company's financial statements. The most commonly used criteria are International Financial Reporting Standards.
The information used by tax inspector is the financial information in the company's tax return. The criteria are the tax laws and any interpretations of these laws.
The information used by an internal auditor when performing an operational audit of the payroll system could include various items such as the number of errors made, costs incurred by the payroll department, and number of payroll records processed each month. The criteria would consist of company standards for departmental efficiency and effectiveness.

32) Information risk is the possibility that information upon which a business decision is made is inaccurate. Four causes of information risk are:
- Remoteness of information
- Biases and motives of the provider
- Voluminous data
- Complex exchange transactions.

33) The five categories of attestation services are:
- Audits of historical financial statements
- Attestation on internal control over financial reporting
- Reviews of historical financial statements
- Attestation services on information technology
- Other attestation services that may be applied to a broad range of subject matter.

34) Four factors that are likely to significantly reduce information risk in the next five to ten years are:
- Technological advances
- More companies will go online, reducing the risk of investors obtaining outdated information
- New accounting and auditing standards
- Auditors will find more efficient and effective audit techniques.

35) An auditor must be able understand the criteria used and must be competent to know the types and amount of evidence to accumulate to reach the proper conclusion after examining the evidence. However, the auditor must also have an independent mental attitude. The competence of those performing audits is of little value if they are biased in the accumulation and evaluation of evidence.
Auditors strive to maintain a high level of independence to keep the confidence of users relying on their reports. Auditors reporting on company financial statements are often called independent auditors. Even though these auditors are paid fees by the company, they are normally sufficiently independent to conduct audits that can be relied on by users.

36) Forensic auditors are trained in detecting, investigating, and deterring fraud and white-collar crime. Forensic auditors are appointed by companies, government authorities, audit firms, and other consulting businesses to investigate and detect instances of potential fraud. They are also appointed widely by companies to ensure systems are well designed or modified to prevent fraud and white-collar crime.
Forensic auditors perform similar functions to ordinary auditors as they gather evidence, collect statements, prepare reports, and help investigate different types of fraud. Examples of events and incidents where forensic auditors can play an important role are:
• Investigating and documenting embezzlement
• Negotiating settlement of insurance disputes related to fraud and white-collar crime.
• Reconstructing incidents of cash transactions related to money-laundering activities.
• Reconstructing incomplete accounting records to settle receivables theft, inventory valuation, and suppliers' payments,
• Assessing deficiencies in internal control systems and providing recommendations for making such systems more effective in preventing and detecting fraud.
37) b
38) j
39) p
40) d
41) a
42) k
43) c
44) h
45) TRUE
46) FALSE
47) FALSE
48) TRUE
49) FALSE
50) TRUE
51) FALSE
52) TRUE
53) FALSE
54) FALSE
55) TRUE
56) FALSE
57) FALSE
58) FALSE
59) TRUE
60) FALSE
61) D
62) C
63) A
64) B
65) C
66) D
67) B
68) D
69) D
70) C
71) A
72) D

73) A
74) A
75) D
76) A
77) C
78) D
79) A
80) D
81) D
82) B
83) D
84) D
85) B
86) D
87) A
88) B
89) B
90) A
91) C
92) For an audit firm, quality control encompasses the methods used to make sure that the firm meets its professional responsibilities to clients. Auditing standards require each audit firm to establish quality control policies and procedures. Quality control is closely related to, but distinct from, auditing standards. An audit firm must make sure that auditing standards are followed on every audit. Quality controls are the procedures used by the audit firm that help it meet requirements demanded by auditing standards on every engagement in a consistent manner.
93) Typical hierarchy of an audit firm, showing roles and responsibilities, is as follows:
• *Staff assistant* — Staff assistants, or staff accountants, perform most of the detailed audit work.
• *Senior or in-charge auditor* — Seniors coordinate and are responsible for the audit field work, including the supervision and review of staff assistants' work.
• *Manager* — Managers assist the senior plan and manage the audit, review the senior's work, and manages relations with the client. A manager may be responsible for multiple engagements at the same time.
• *Partner* — Partners review the overall audit work and they are involved in all significant audit decisions. As owners of the firm, partners are ultimately responsible for conducting the audit and serving the client.

94) The International Standard on Quality Control (ISQC) issued by the IAASB discusses a firm's responsibilities for its system of quality control for audits. An audit firm should have a system of quality control that addresses six key elements:
• *Leadership responsibilities*: The firm promotes a culture that quality is an essential in performing engagements and establishes policies and procedures that support that culture.
• *Relevant ethical requirements*: Personnel on engagement should maintain independence in fact and in appearance, perform all professional responsibilities with integrity and maintain objectivity in performing their professional responsibilities.
• *Acceptance and continuation of clients and engagements*: Policies and procedures should be established for deciding whether to accept or continue a client relationship. These policies should minimize the risk of associating with a client whose management lacks integrity.
• *Human resources:* Policies and procedures should be established to provide the firm with reasonable assurance that all new personnel are qualified to perform their work, work is assigned to personnel who have adequate training, personnel should participate in continuing professional education, and personnel selected for advancement should have the necessary qualifications for their assigned responsibilities.
• *Engagement performance*: Policies and procedures should exist to ensure that engagement personnel perform work that meets applicable professional standards and the firm's standards of quality.
• *Monitoring*: Policies and procedures should exist to ensure that the other quality control elements are being effectively applied.

95) International Standards on Auditing are general guidelines to help auditors meet their professional responsibilities in the audit of historical financial statements. They are considered to be the minimum standards of performance for auditors to follow and are established by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). International Financial Reporting Standards are the guidelines which an entity's management normally follows when preparing historical financial statements. IFRS are established by the International Accounting Standards Board.
In the U.S., the auditing standards are the generally accepted auditing standards (GAAS). They are established by the Auditing Standards Board of the American Institute of Certified Public Accountants for private companies and by the Public Company Accounting Oversight Board for public companies. Generally accepted accounting principles (GAAP) are the main accounting guidelines. GAAP is established by the Financial Accounting Standards Board.

96) General Standards
• Adequate technical training and proficiency.
• Independence in mental attitude.
• Due professional care.

Standards of Field Work
• Adequate planning and supervision.
• Understand the entity and its environment including internal control.
• Sufficient appropriate audit evidence.

Standards of Reporting
• Whether statements were prepared in accordance with GAAP.
• Circumstances when GAAP was not consistently followed.
• Adequacy of informative disclosures.
• Expression of opinion on financial statements as a whole.

97) • General principles and responsibilities (sections 200-299).
• Risk assessment and response to assessed risks (sections 300-499).
• Audit evidence (sections 500-599).
• Using the work of other s (sections 600-699).
• Audit conclusions and reporting (sections 700-799).
• Specialized areas (sections 800-899).

98) Independent mental attitude refers to a state of mind in which the auditor is totally unbiased with respect to the client and the financial information under audit.
Although internal auditors are employees of the organization for which their audits are performed, internal auditors should be independent of the function being examined and should report their findings to a level high enough in the organization to allow the auditor to be free from influence by the party, or parties, being examined.
99) The PCAOB has responsibility for providing oversight auditors of public companies, establishing auditing and quality control standards for public company audits and performing inspections of the quality controls at audit firms performing those audits. These functions were formerly the responsibility of the American Institute of Certified Public Accountants.
100) Major functions of the AICPA include:
• Establishing standards and rules that practicing CPAs must follow. These standards consist of auditing standards for auditors of private companies, compilation and review standards, other attestation standards, and the *Code of Professional Conduct*.
• Research and publication. AICPA publications include the *Journal of Accountancy*, industry audit guides, periodic updates of the *Codification of Statements on Auditing Standards*, and the *Code of Professional Conduct*.
• Promoting the accounting profession.
• Developing specialist certifications.
• Writing and grading the uniform CPA examination.
• Providing continuing education seminars for its members.
101) Islamic accounting is an accounting process which provides appropriate information (not necessarily limited to financial data) to stakeholders of an entity which will enable them to ensure that it is continuously operating within the boundaries of Shari'a and delivering on its socioeconomic objectives.
AAOIFI develops accounting, auditing, governance and ethical standards relating to the activities of Islamic financial institutions. In doing so, it seeks to build on those international standards and practices that comply with Islamic Shari'a rules. The organization seeks to harmonize the accounting policies adopted by Islamic financial institutions and to improve the quality and uniformity of auditing and governance practices. It supports the work of the Shari'a supervisory boards by providing educational and training programs, including supporting professional development in accounting, auditing, ethics, governance, Shari'a, and other related areas. It promotes good practice within the Islamic financial industry by preparing and disseminating codes of ethics.
102) The quality standards issued by SOCPA include independence, assigning personnel to engagements, consultation, supervision, and acceptance of clients. Two approaches are used to select subjects for quality assurance review: the cycle approach, with a maximum number of three years for both partner and the audit firm, and the risk-based approach. Risk factors used to determine which firms or partners are reviewed include number of listed entity clients, number of entities considered to be of public interest, past results of quality assurance reviews, failure to meet continuing professional development requirements, independence violations, and any previously identified deficiencies in the design of, or compliance with, the firm's system of quality control.
103) TRUE
104) FALSE
105) FALSE
106) TRUE
107) FALSE
108) FALSE
109) FALSE
110) FALSE
111) FALSE
112) TRUE
113) FALSE
114) TRUE
115) FALSE
116) FALSE

117) TRUE
118) TRUE
119) TRUE
120) FALSE
121) TRUE
122) FALSE
123) A
124) A
125) A
126) C
127) D
128) C
129) A
130) C
131) C
132) A
133) D
134) A
135) D
136) C
137) D
138) B
139) D
140) B
141) A
142) C
143) B
144) C
145) D
146) B
147) D
148) C
149) D
150) B
151) C
152) A
153) A
154) D
155) D
156) A
157) C
158) B
159) C
160) B
161) A
162) C
163) C
164) A
165) A
166) C

167) D
168) D
169) C
170) A
171) D
172) B
173) C
174) B
175) C
176) D
177) A
178) A
179) When determining the appropriate audit report to issue, the auditor considers three levels of materiality for a given condition. These three levels are (1) immaterial, (2) material without overshadowing the financial statements as a whole, and (3) highly material. For conditions involving an IFRS violation, the materiality level of the violation influences whether an unmodified, qualified, or adverse opinion is issued. For conditions involving a scope restriction, the materiality of the restriction influences whether an unmodified report, a qualified scope and opinion report, or a disclaimer of opinion is issued.
180) Auditing standards require auditors to plan and perform audits to obtain *reasonable assurance* about whether the financial statements are free from material misstatements. Sampling is used rather than an audit of every transaction and amount on the statements. Auditors use their judgment to select procedures and to make an assessment of the risks of material misstatement of the financial statements. This is why the standard audit report makes explicit reference to the auditor's judgment and opinion.

181) The four conditions that justify issuing a standard unmodified report are:
• Sufficient appropriate audit evidence has been accumulated and the auditor has conducted the engagement in a manner that meets auditing standards.
• The financial statements are presented in accordance with IFRS or applicable local accounting standards, and adequate disclosures have been included in the footnotes and other parts of the financial statements.
• There are no circumstances requiring the addition of an emphasis or a matter or other matter paragraph in the report.
• There are no circumstances which indicate that the auditor is not independent.
182) The three conditions requiring a departure from an unmodified report are:
• A scope restriction imposed by the client or by circumstances beyond the auditor's or client's control that prevents the auditor from accumulating sufficient evidence to reach a conclusion regarding whether financial statements are stated in accordance with IFRS. In this condition, the auditor would issue either a qualified opinion or a disclaimer of opinion.
• The financial statements were not prepared in accordance with IFRS or local accounting standards. In this condition, the auditor would issue a qualified opinion if the IFRS violations were moderately material, or an adverse opinion if the IFRS violations were highly material.
• The auditor is not independent. In this condition, the auditor must issue a disclaimer of opinion.

183) An unmodified report with wording differing from a standard unmodified report is appropriate in the following circumstances:

• *Emphasis of a matter or other matter paragraphs*. These are used when auditor concludes that the engagement meets the criteria of a complete audit with satisfactory results and financial statements that are fairly presented, but the auditor believes it is important or is required to provide additional information. For example, an emphasis of a matter paragraph would be used to draw attention to important events occurring subsequent to the balance sheet date, or to describe accounting matters affecting the comparability of the financial statements with those of the preceding year.

• *Substantial doubt about continuing as a going concern*. When an auditor concludes there is substantial doubt about the client's ability to continue as a going concern, an unmodified opinion with an emphasis of a matter is appropriate. The auditor also has the option of issuing a disclaimer of opinion.

• *Reports involving other auditors*. When an auditor relies upon another auditing firm to perform part of the audit, the auditor can indicate that responsibility for the audit is shared with another auditing firm by modifying the wording of an unmodified report.

184) The audit report contains the following deficiencies:

• The report title is missing.

• The report is not addressed to anyone and should be addressed to shareholders or the board of directors.

• The introductory paragraph refers to the wrong company. The paragraph should refer to having 'audited' not 'examined.' It should list the financial statements that were audited. It should refer to the summary of the significant accounting policies and other explanatory information. Finally, it should specify the date or period covered by each financial statement comprising the financial statements.

• The management responsibility paragraph should state the applicable financial reporting framework used to draw up the financial statements, and set out management's responsibilities more fully, including 'maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances'.

• The auditor's responsibility section should state the audit was conducted in accordance specified auditing standards not International Financial Reporting Standards. The second sentence should read 'Those standards require that we *comply with ethical requirements and* plan and perform the audit to *obtain* reasonable assurance about whether the financial statements are free of *material* misstatements.'

• The auditor's responsibility section omits detail on the procedures and methodology: 'The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.'

• The final sentence in the auditor's responsibility section should read: 'We believe the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.'

• Following the auditor's responsibility section, there should be an emphasis of a matter paragraph that discusses the IFRS violation related to the failure to capitalize certain lease obligations.

• In the opinion paragraph, the auditor should state that the financial statements *give a true and fair view of* rather than *present accurately*, and the paragraph should include the phrase '…and of its financial performance and its cash flows for the year then ended…'

• The audit report should be dated March 13, 2013.

185) The parts of the standard unmodified audit report are as follows:
• *Report title*. The title must include the word 'independent.' Examples of appropriate titles are 'independent auditor's report,' or 'report of independent accountant.'
• *Report address.* The report is usually addressed to the company's shareholders or board of directors. It should not be addressed to company management.
• *Introductory paragraph*. There are four important components of the introductory paragraph. First, it states that an audit was performed. Second, it identifies the entity that has been audited and lists the financial statements that were audited. Third, it refers to the summary of significant accounting policies and other explanatory information. Fourth, it specifies the date or period covered by each financial statement.
• *Management responsibility paragraph*. This states that management is responsible for the financial statements, and that the auditor is responsible for expressing an opinion on those statements based on an audit in accordance with the applicable financial reporting framework and for such internal control as it determines is necessary to ensure the financial statements are free from material misstatement, whether due to fraud or error.
• *Auditor's responsibility paragraph*. This section indicates that it is the responsibility of the auditor is to form an opinion on the financial statements based on the audit. It will also clarify that the audit was conducted in accordance with applicable auditing standards whether International Standards on Auditing or local auditing standards. The remainder of the auditor's responsibility paragraph discusses the audit evidence accumulated and states that the auditor believes that the evidence accumulated was appropriate for the circumstances to express the opinion presented. The words test basis indicates that sampling was used rather than an audit of every transaction and amount on the statements.
• *Opinion paragraph*. This paragraph states the auditor's opinion concerning whether the financial statements give a true and fair view of the client's financial position and results of its operations and cash flows in conformity with in accordance with the applicable accounting standards.
• *Other reporting responsibilities*. Under the heading 'report on other legal and regulatory requirements' the auditor may include specific requirements embedded in local laws or regulations for the audit of the company's financial statements.
• *Name and signature of the auditor*. Typically, the name of the auditing firm as well as the name of the auditor is used because the entire firm has legal and professional responsibility to ensure the quality of the audit.
• *Auditor's address*. The audit report should name the location in the jurisdiction where the auditor practices.
• *Audit report date*. The audit report should be dated as of the last day on which the auditor completed auditing procedures in the field.

186) The three stage process is as follows:
• *Determine whether any condition exists requiring a departure from a standard unmodified report.* Auditors identify conditions requiring reports or unmodified with an emphasis of a matter or other matter paragraphs as they perform the audit and include information about any condition in the audit files as discussion items for audit reporting. If none of these conditions exist, which is the case in most audits, the auditor issues a standard unmodified audit report.
• *Decide the materiality for each condition*. When a condition requiring a departure from a standard unmodified opinion exists, the auditor evaluates the potential effect on the financial statements. For departures from IFRS or scope restrictions, the auditor must decide among immaterial, material, and highly material. All other conditions, except for lack of auditor independence, require only a distinction between immaterial and material. The materiality decision is a difficult one, requiring considerable judgment. For example, assume that there is a scope limitation in auditing inventory. It is difficult to assess the potential misstatement of an account that the auditor does not audit.
• *Decide the appropriate type of report for the condition given the materiality level*. After making the first two decisions, it is easy to decide the appropriate type of opinion by using a decision aid. For example, assume that the auditor concludes that there is a departure from IFRS or a local accounting standard and it is material, but not highly material. The appropriate audit report is a qualified opinion.

187) The information in the annual reports and other documents that may contain the audited financial statements must be examined by the auditor for consistency with the information contained in the audited financial statements due to legal requirements in some jurisdictions. For example, under the Egyptian Companies Act auditors are responsible for auditing information contained in the report of the board of directors or management together with the audited financial statements published in the annual report. Auditors inspect the report of the board to ensure consistency between information contained in such report and audited financial statements.
ISA 720 provides detailed guidance concerning the auditor's responsibility for other information in documents contained with audited financial statements. Auditors should read the other information and identify any material inconsistency with the audited financial statements. For example, the report of the directors may discuss the number of employees and their salaries, growth or decline percentage of sales and administrative expenses. The auditor is required to determine whether the report of the board or the financial statements would need to be revised by management. If management refuses to revise the other information, then the auditor is required to include an other matter paragraph in the auditor's report explaining the material inconsistency between other information and the audited financial statements. It is important to note that a material misstatement of fact may affect the credibility of the document included with audited financial statements.
188) f
189) g
190) a
191) g
192) e
193) d *or* g
194) d
195) c
196) TRUE
197) FALSE
198) FALSE
199) FALSE
200) FALSE
201) FALSE
202) TRUE
203) FALSE
204) FALSE
205) FALSE
206) FALSE
207) TRUE
208) FALSE
209) FALSE
210) FALSE