

Auditing, 12e (Arens)

Chapter 2 The Public Accounting Profession

2.1 Describe the various organizational structures of public accounting firms

1) One of the main advantages of a "big" public accounting firm is the

- A) lower professional fees due to economies of scale.
- B) ability to share knowledge and experience of similar companies they audit with the client.
- C) ability to serve all major international cities as globalization of businesses increases.
- D) increased reliance that can be placed on the audit report by financial statement users.

Answer: C

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Learning Obj.: 2-1 Describe the various organizational structures of public accounting firms

2) National accounting firms in 2012 are those with

- A) offices in most major cities and revenues over \$100 million.
- B) international representation in most cities around the world.
- C) offices in all major cities in Canada and revenues over \$75 million.
- D) national and international affiliations providing services in all major centres.

Answer: A

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Learning Obj.: 2-1 Describe the various organizational structures of public accounting firms

3) Most international and national accounting firms in Canada are comprised of professional accountants with the designations

- A) CGA or CMA.
- B) CMA or CIA.
- C) CA [CPA] or CGA.
- D) CIA or CISA.

Answer: C

Diff: 2 Type: MC Page Ref: 27

Learning Obj.: 2-1 Describe the various organizational structures of public accounting firms

4) How many public accounting firms are there in Canada that have more than 50 professional staff?

- A) 25
- B) 50
- C) 75
- D) 100

Answer: B

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Learning Obj.: 2-1 Describe the various organizational structures of public accounting firms

5) What is the size of most public accounting firms in Canada?

- A) fewer than 25 employees
- B) between 25 and 49 employees
- C) between 50 and 75 employees
- D) more than 75 employees

Answer: A

Diff: 3 Type: MC Page Ref: 28

Learning Obj.: 2-1 Describe the various organizational structures of public accounting firms

6) The most common organizational form used by public accounting firms is

- A) sole proprietorship or partnership.
- B) professional corporation.
- C) corporation.
- D) co-operative.

Answer: A

Diff: 1 Type: MC Page Ref: 28

Learning Obj.: 2-1 Describe the various organizational structures of public accounting firms

7) What are the three main factors that influence the organizational structure of all Public Accounting firms?

Answer:

1. The need for independence from clients. Independence permits auditors to remain unbiased in drawing conclusions about their client's financial statements.
2. The importance of a structure to encourage competence. The ability of the structure to encourage competence permits auditors to conduct audits and perform other services efficiently and effectively.
3. The increased litigation risk faced by auditors. Firms continue to experience increases in litigation-related costs from lawsuits. Some organizational structures afford a degree of protection to individual firm members.

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Learning Obj.: 2-1 Describe the various organizational structures of public accounting firms

2.2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

1) What is one of the ways that high-profile business failures such as Enron, WorldCom and Nortel have affected the auditing profession?

- A) raised the cost of hiring accounting firm professionals
- B) resulted in a need for decreased paperwork on audits
- C) lowered the number of professionals working on an audit engagement
- D) created an increasing focus on standards and high-quality audits

Answer: D

Diff: 1 Type: MC Page Ref: 29

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

2) How has the Canada Business Corporation Act given authority to Canadian accounting and auditing standard setters? By stating that financial statements

- A) must be compiled in accordance with International Financial Reporting Standards.
- B) should be prepared in accordance with the standards in the CICA Handbook.
- C) must be audited by accountants that reside in Canada.
- D) should be prepared in accordance with local financial reporting standards.

Answer: B

Diff: 2 Type: MC Page Ref: 30

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

3) When the criteria to be used in the financial statement audit is established, the auditor's responsibility is to

- A) evaluate the reporting framework used.
- B) select the acceptable financial reporting framework.
- C) make a recommendation to management for selecting the framework.
- D) create and document the framework used.

Answer: A

Diff: 2 Type: MC Page Ref: 30

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

4) The reason for adopting the CASs is to

- A) comply with the requirement from the Canada Business Corporations Act.
- B) respond to the increased litigation risks faced by the auditors.
- C) be consistent with the international standards of auditing.
- D) to simplify the auditing process.

Answer: C

Diff: 2 Type: MC Page Ref: 31

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

5) Independence is assessed in the eyes of external users and regulators. Which of the following is a tool that helps the auditor identify whether the auditor is independent for a particular audit engagement?

- A) completion of independence forms at time of employment
- B) the use of an independence threat analysis
- C) audit risk model assessment for each engagement
- D) professional skepticism when assessing control risks

Answer: B

Diff: 2 Type: MC Page Ref: 30-31

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

6) The implementation of the Sarbanes-Oxley requirements in the US resulted in the creation of the PCAOB to oversee listed companies' auditors and develop audit standards. The impact of this requirement in Canada was the

- A) creation of new auditing standards to ensure better quality control of the audit.
- B) revisions of the rules of professional conduct for CAs.
- C) additional training requirements to become an auditor.
- D) creation of the CPAB to oversee Canadian audit professionals.

Answer: D

Diff: 3 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

7) The implementation of the Sarbanes-Oxley requirements in the US resulted in increased independence requirements for the auditors. The impact of this requirement in Canada was

- A) creation of the CPAB to oversee Canadian audit professionals.
- B) revisions of the rules of professional conduct for PAs.
- C) additional training requirements to become an auditor.
- D) modification of the type of opinion provided in an assurance engagement by the auditor.

Answer: B

Diff: 3 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

8) What is the auditor required to do with respect to the financial reporting framework at a client?

- A) assess whether the framework selected by management is suitable
- B) select an applicable framework for use with the financial statements
- C) make sure that ASPE or ASNPO are in use for publicly listed companies
- D) select the accounting principles to be used as part of the reporting framework

Answer: A

Diff: 2 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

9) Sarbanes-Oxley in the U.S. and regulatory reporting requirements in Canada provide the clout to make management directly responsible for the financial statements. What is one of the ways that this is implemented in the CASs (Canadian Auditing Standards)?

- A) all listed company management must certify the accuracy of the evidence provided
- B) management must provide evidence to support financial statement data
- C) management must implement and carry out development of high quality internal controls
- D) companies must use internal auditors to assess the quality of the financial statements

Answer: B

Diff: 3 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

10) Sarbanes-Oxley in the U.S. and regulatory reporting requirements in Canada provide the clout to make management directly responsible for the financial statements. What is one of the ways that this is implemented in the CASs (Canadian Auditing Standards)?

- A) all listed company management must certify the accuracy of the evidence provided
- B) management must implement and carry out development of high quality internal controls
- C) management must acknowledge and understand its responsibilities
- D) companies must use internal auditors to assess the quality of the financial statements

Answer: C

Diff: 2 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

11) Canadian auditing standards (CASs) require that the audit be conducted using

- A) a controls testing approach.
- B) a risk assessment approach.
- C) a substantive approach.
- D) a standard approach.

Answer: B

Diff: 3 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

12) The first step in the financial statement audit using a risk assessment approach is to

- A) identify risks of material misstatement.
- B) gather evidence to assess the likelihood of material misstatement.
- C) evaluate audit evidence.
- D) evaluate the reporting framework.

Answer: A

Diff: 3 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

13) The risk response phases of conducting the financial statement audit using a risk assessment approach includes

- A) conducting an independence threat analysis to evaluate independence.
- B) preparation of the final auditor's report in response to audit findings.
- C) identification of risks of material misstatement at the client.
- D) gathering evidence to assess the likelihood of material misstatement.

Answer: D

Diff: 2 Type: MC Page Ref: 32

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

14) During which phases of the financial statement audit does the auditor "evaluate evidence" when conducting the financial statement audit using a risk assessment approach? During

- A) the risk assessments.
- B) the risk responses.
- C) the reporting process.
- D) risk assessment, risk response and reporting phases.

Answer: D

Diff: 3 Type: MC Page Ref: 33

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

15) The codes of professional conduct of the various accounting bodies are meant to

- A) provide a standard of conduct for all members, including those in public practice.
- B) interpret the assurance recommendations and views of the AASB.
- C) provide the rules underlying the audits and related service activities carried on by the accountants.
- D) establish the norms for quality control of an audit.

Answer: A

Diff: 2 Type: MC Page Ref: 33

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

16) General qualifications and conduct standards indicate that performance of all aspects of auditing should be performed with due care. This means that the auditor must fulfill his/her duties

- A) in accordance with the CAS.
- B) carefully and in a timely manner.
- C) to the satisfaction of the client.
- D) diligently and carefully.

Answer: D

Diff: 2 Type: MC Page Ref: 34

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

17) Adequate technical training and proficiency in auditing is a requirement of which category of generally accepted auditing standards?

- A) General
- B) Examination
- C) Reporting
- D) Quality control

Answer: A

Diff: 2 Type: MC Page Ref: 34

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

18) Adequate planning and execution to reduce risk to an acceptable level is a requirement of which category of generally accepted auditing standard?

- A) General
- B) Examination
- C) Reporting
- D) Quality

Answer: B

Diff: 2 Type: MC Page Ref: 34

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

19) Communicating the findings of the audit in accordance with the CASs is a requirement of which category of generally accepted auditing standard?

- A) General
- B) Examination
- C) Reporting
- D) Quality

Answer: C

Diff: 2 Type: MC Page Ref: 34

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

20) Canadian GAAS (Generally Accepted Auditing Standards) are best described as

- A) the CICA Handbook, plus published research and public accounting firm practices in auditing.
- B) Canadian generally accepted auditing practices developed by public accounting firms.
- C) material that is fully codified in the CICA Handbook developed in Canada.
- D) the existing research that has been published about auditing that is used by firms.

Answer: A

Diff: 1 Type: MC Page Ref: 34

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

21) CAS 200 provides overall objectives of the Independent Auditor during the conduct of an audit in three categories: qualifications and conduct, performance of the audit, and reporting of results. How do these standards provide guidance to auditors? They

- A) detail what an auditor should do during each financial statement audit.
- B) represent a framework for further discussion of detailed standards.
- C) provide specific rules about how work should be done for evidence gathering.
- D) explain how the audit report should be developed and distributed.

Answer: B

Diff: 2 Type: MC Page Ref: 34

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

22) CAS 200 explains that as part of general qualifications and conduct the auditor should be professionally competent. Which of the following help the auditor achieve competence?

- A) the use of due care in the performance of all aspects of auditing
- B) have an objective state of mind and independence from the client
- C) formal education, practical experience and continuing education
- D) conducting the audit using a risk-based approach and being skeptical

Answer: C

Diff: 3 Type: MC Page Ref: 34-35

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

23) CAS 200 explains that as part of general qualifications and conduct the auditor should exercise due care in the performance of all aspects of auditing. Which of the following is an illustration of due care?

- A) having an objective state of mind and independence from the client
- B) completing formal education and having practical experience in the conduct of auditing
- C) issue a standard audit report using the CICA Handbook specified wording
- D) considering the completeness of the working papers

Answer: D

Diff: 3 Type: MC Page Ref: 35

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

24) Larger audits may have established procedures that utilize an audit committee whenever there is a dispute between management and the auditors. What is the purpose of such procedures?

- A) make sure that the auditor understands management's point of view
- B) improves the competence of the financial statement auditors
- C) facilitate the auditors' independence from management
- D) helps make sure the audit is conducted following GAAS

Answer: C

Diff: 2 Type: MC Page Ref: 35

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

25) Who do the external auditors and the internal auditors usually report to?

- A) senior management
- B) the audit committee
- C) chief executive officer
- D) director of internal audit

Answer: B

Diff: 1 Type: MC Page Ref: 35

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

26) A strategic and risk-based audit approach means that the client must be assessed in the context of the business environment, including which of the following?

- A) ensuring that accounting complies with IFRS or ASPE
- B) completion of an independence threat analysis with supporting documentation
- C) corporate governance process and quality of internal controls
- D) talking to those audit committee members who are also part of management

Answer: C

Diff: 2 Type: MC Page Ref: 35

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

27) Which of the following rights is in the CBCA (Canada Business Corporations Act) and is necessary for the completion of the audit? The right to

- A) obtain copies of all documentation needed to conduct the audit.
- B) advise management regarding how it should set up its records.
- C) publish information when management engages in fraud.
- D) have access to the necessary records, information and explanations.

Answer: D

Diff: 3 Type: MC Page Ref: 35

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

28) When the CICA Handbook is silent on an auditing issue, which of the following is the best of other authoritative sources that the auditor could use?

- A) audit technique studies
- B) audit firm practice manuals
- C) past practice at the client
- D) reference to audit standards partner

Answer: A

Diff: 2 Type: MC Page Ref: 35-36

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

- 29) What is the purpose of exposure drafts issued by the AASB (Auditing and Assurance Standards Board) in Canada? To
- A) expose the newly established standards to as many groups as possible.
 - B) provide current copies of the standards in advance of being placed in the CICA Handbook.
 - C) provide supporting reference material and other resources.
 - D) explain how standards will be changed and solicit feedback.

Answer: D

Diff: 2 Type: MC Page Ref: 37

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

- 30) The most authoritative requirements for public accountants performing financial statement audits in Canada are the
- A) standards used by the client.
 - B) industry specific standards.
 - C) CICA handbook requirements.
 - D) assurance guidelines.

Answer: C

Diff: 2 Type: MC Page Ref: 37

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

- 31) When conducting an audit, the auditor should look at Canadian GAAS as
- A) minimum standards of performance.
 - B) normal standards of performance.
 - C) ultimate standards of performance.
 - D) practical standards of performance.

Answer: A

Diff: 2 Type: MC Page Ref: 37

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

- 32) A PA firm is conducting the audit of a company that has operations in both Canada and Finland. There is a conflict between ISAs (International Statements on Auditing) and CASs (Canadian Auditing Standards) for the foreign operations that will be consolidated with the Canadian operations. Which reporting standards should the PA firm follow?
- A) reporting standards of Finland
 - B) international reporting standards
 - C) Canadian reporting standards
 - D) the best of Canadian or international

Answer: C

Diff: 3 Type: MC Page Ref: 37

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

33) The CICA is the professional accounting organization for Chartered Accountants (CAs). Describe the role and responsibilities of the organization in serving its members.

Answer:

Research and Publication: The CICA publishes the CA Magazine along with accounting and auditing research studies. The CICA also coordinates the UFE exam.

Continuing Education: The CICA provides courses, seminars and on-line material to update their members on a variety of topics relating to accounting and auditing. It also has six specific specializations for its members.

Establishing standards and rules: The AASB sets accounting and auditing standards that are published by the CICA and that must be followed by public accountants.

Diff: 2 Type: ES Page Ref: 29-30

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

34) For each of the following situations, state which element of the profession or society encourages the public accountant to conduct himself at a high level.

A) Marco attended a seminar on the topic of business combinations to ensure he was up to date with the new standard.

B) Barbara referred to the standard on hedging to ensure that her client had the appropriate documentation to qualify for hedge accounting.

C) Gretchen refused to perform the audit of her uncle's restaurant chain.

D) Walid worked overtime all week to ensure that the file was properly documented and met the quality control requirements.

E) Sarah took the summer off to study for the Uniform Final Examination (UFE) to ensure that she would pass the entrance exam to become a chartered accountant.

Answer:

A) Continuing Education

B) CICA Handbook

C) Code of professional conduct

D) CPAB review and quality control

E) Professional examination.

Diff: 2 Type: ES Page Ref: 33

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

35) The generally accepted auditing standards can be divided into three categories of standards. List the three categories and provide an example of each.

Answer: Note: Two examples are provided. Others are possible.

1. *General* qualifications and conduct:

- the auditor complies with ethical and independence requirements
- implementation of ethical and independence requirements is monitored using control procedures

2. *Examination*, performance of the audit:

- the audit should be planned and performed using professional skepticism
- the audit shall be conducted using a risk-based approach

3. *Reporting* results:

- provide a report on the financial statements that matches the auditor's findings
- communicate findings in accordance with the CASs

Diff: 2 Type: ES Page Ref: 34

Learning Obj.: 2-2 Link the market forces that help ensure that audit and assurance engagements are completed to high standards of quality

2.3 Examine the characteristics of quality control for financial statement audits

1) A PA firm has an organizational structure that assures the technical review of every engagement by a partner who has expertise in the client's industry. This is an example of good

- A) entity level controls.
- B) adherence to professional standards.
- C) business risk management.
- D) quality controls.

Answer: D

Diff: 3 Type: MC Page Ref: 38

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

2) CPAB's purpose is to

- A) develop auditing standards.
- B) provide training and continuing education to auditors.
- C) clarify and communicate the role of the auditor to the public.
- D) improve the public's confidence in independent auditing.

Answer: D

Diff: 2 Type: MC Page Ref: 38

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

3) A key difference between the PCAOB in the U.S. and CPAB in Canada is that

- A) CPAB is involved in the development of auditing standards.
- B) PCAOB is involved in the development of auditing standards.
- C) PCAOB conducts practice inspections of public company auditors.
- D) CPAB conducts practice inspections of public company auditors.

Answer: B

Diff: 2 Type: MC Page Ref: 38

Learning Obj.: 3-3 Examine the threats to independence and explain how the threats can be mitigated

4) There are many elements of quality control at the firm level. Which element does "an organizational culture that provides quality should be present for audit and review engagements" belong to?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement performance

Answer: A

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 3-3 Examine the threats to independence and explain how the threats can be mitigated

5) There are many elements of quality control at the firm level. Which element does "quality control procedures should be developed, documented, implemented and communicated" belong to?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement quality control review

Answer: A

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 3-3 Examine the threats to independence and explain how the threats can be mitigated

6) There are many elements of quality control at the firm level. Which element does "management within a firm should ensure that qualified personnel monitor and address non-compliance with quality control procedures" belong to?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement quality control review

Answer: A

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 3-3 Examine the threats to independence and explain how the threats can be mitigated

7) There are many elements of quality control at the firm level. Which element does "a firm should establish a formal code of conduct that includes procedures for individuals to disclose differences of opinion and any inappropriate conduct" belong to?

- A) leadership and responsibilities within the firm
- B) general ethical requirements
- C) general human resource policies
- D) engagement quality control review

Answer: A

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 3-3 Examine the threats to independence and explain how the threats can be mitigated

8) Farah is currently auditing Software Synx, a public company. After a long day of work, Farah goes for a drink with her friend John who mentions that he owns shares of Software Synx. Farah indicates that John should hold on to his shares as they will go up next week when the financial statements are released and show an increase of 12% for revenues. Which element of quality control is compromised by Farah?

- A) General ethical requirements
- B) Independence
- C) General human resource policies
- D) Engagement performance

Answer: A

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

9) Gary West is a sole practitioner. He has conducted the audit of Reggie's Farm for the past 12 years. In the current year, Reggie's Farm expanded by acquiring two other farms, installed a new accounting system and also started to export to the United States. Gary accepted the audit of Reggie's Farm for the upcoming year even though he has no experience with exports to the US or companies of the size of Reggie's Farm. Which element of quality control is compromised for Gary's firm?

- A) Independence
- B) Client acceptance or continuance
- C) Extent of professional development
- D) General ethical requirements

Answer: B

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

10) Dimitri works at a large public accounting firm. Dimitri referred one of his friends for a junior auditor position. Dimitri's friend was hired despite the fact that he had a criminal record dating from 3 years ago. The partner did not perform a background check on Dimitri's friend since he was recommended by an employee. Which element of quality control is compromised?

- A) General ethical requirements
- B) Independence
- C) General human resource policies
- D) Engagement performance

Answer: C

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

11) There are many elements of quality control at the firm level. Which element does "adequate hiring policies (and documentation of their implementation) that ensure competence and integrity of personnel should be in place" belong to?

- A) leadership and responsibilities within the firm
- B) independence
- C) general human resource policies
- D) extent of professional development

Answer: C

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

12) There are many elements of quality control at the firm level. Which element does "ongoing professional development of personnel should exist, with assignment to work that matches employee competence, and performance evaluations related to audit quality" belong to?

- A) leadership and responsibilities within the firm
- B) independence
- C) general human resource policies
- D) extent of professional development

Answer: C

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

13) There are many elements of quality control at the firm level. Which element does "employees should be adequately trained in the skills needed to conduct audits and reviews" belong to?

- A) leadership and responsibilities within the firm
- B) independence
- C) general human resource policies
- D) extent of professional development

Answer: D

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

14) Jessica is a summer junior at Branes & Castle, a PA firm. Jessica has only completed 3 accounting courses in university and has not yet taken her auditing class. A team of auditors from Branes & Castle are starting the audit and Jessica was sent to help them. Jessica

- A) can perform work for the audit engagement as long as she is supervised and proper review of her work is performed.
- B) should not perform any work pertaining to the audit engagement since she doesn't have sufficient knowledge.
- C) should be limited to assisting the audit team with support functions such as photocopies and file assembly.
- D) can perform work for the audit engagement on cycles where risk was assessed as low.

Answer: A

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

15) There are many elements of quality control at the firm level. Which element does "adequate processes and procedures should be in place to ensure that the audit or review is conducted in accordance with GAAS, that quality control procedures are followed for each engagement, and that the audit is appropriately documented" belong to?

- A) leadership and responsibilities within the firm
- B) general human resource policies
- C) extent of professional development
- D) engagement performance

Answer: D

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

16) There are many elements of quality control at the firm level. Which element does "policies in place should include use of second or independent partner review, technical review, documentation, and compliance with quality control processes" belong to?

- A) engagement performance
- B) engagement quality control review
- C) documentation
- D) general human resource policies

Answer: B

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

17) There are many elements of quality control at the firm level. Which element does "processes should exist for following up internal and external complaints" belong to?

- A) engagement performance
- B) engagement quality control review
- C) documentation
- D) general human resource policies

Answer: B

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

18) During which phases of the financial statement audit does the auditor "conduct quality control" when conducting the financial statement audit using a risk assessment approach? During

- A) the risk assessments.
- B) the risk responses.
- C) the reporting process.
- D) risk assessment, risk response and reporting phases.

Answer: D

Diff: 2 Type: MC Page Ref: 39

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

19) For a CA or CGA working as a sole practitioner or working in a small public accounting office, the provincial practice inspectors will likely come to review audit files

- A) every three years.
- B) every five years.
- C) every year.
- D) files sent, not reviewed in person.

Answer: A

Diff: 1 Type: MC Page Ref: 40

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

20) How do practice inspections affect the ability of a PA firm to have articling students work at the firm? Practice inspectors

- A) only permit students to work there if the quality controls are good.
- B) review the ability of the office to provide sufficient, appropriate hours.
- C) require that students work only on audit engagements, not reviews.
- D) consider only work completed by qualified PAs, not students.

Answer: B

Diff: 3 Type: MC Page Ref: 40

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

21) Which of the following is a typical consequence to a PA or PA firm if practice inspectors find any files or quality control procedures to be unsatisfactory? The PA

- A) will lose the right immediately to conduct audit engagements.
- B) will no longer be allowed to sign audit reports for a period of time (such as a year).
- C) may be required to revise processes or attend training courses.
- D) will be required to rewrite the professional qualification examinations.

Answer: C

Diff: 2 Type: MC Page Ref: 40

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

22) Stafford & Sandiford is a Public Accounting firm with 30 clients who are reporting issuers. Stafford & Sandiford can expect to be inspected by the CPAB

- A) once per year.
- B) once every 3 years.
- C) once every 5 years.
- D) randomly.

Answer: B

Diff: 1 Type: MC Page Ref: 40

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

23) Securities regulations in Canada are the responsibility of

- A) national securities commission.
- B) provincial securities commissions.
- C) the professional accounting organizations.
- D) office of the auditor general of Canada.

Answer: B

Diff: 1 Type: MC Page Ref: 41

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits

24) Canadian GAAS (including the CICA Handbook) are the authoritative standards for the conduct of financial statement audits in Canada. How would this affect the audit of a Canadian company that is owned by a Swedish company that must also report using Swedish (International) auditing standards?

Answer:

- the audit of the foreign subsidiary must be conducted using Canadian GAAS
- as long as the audit complies with Canadian GAAS, it may also be conducted in accordance with international GAAS
- the auditor may report that the audit was conducted using both Canadian and Swedish (International) GAAS
- Canadian GAAS would be the floor (or minimum standards)
- differences between the two sets of standards may need to be identified
- where there are differences between the two sets of standards, the auditor should follow Canadian reporting standards
- the CICA Handbook takes precedence over the ISAs when there is a conflict

Diff: 3 Type: ES Page Ref: 37-38

Learning Obj.: 2-3 Examine the characteristics of quality control for financial statement audits