

※ 考生請注意：本試題不可使用計算機。請於答案卷(卡)作答，於本試題紙上作答者，不予計分。

Part I: Multiple Choice Questions (60 points, 3 points for each question)

- (1) Which of the following audits can be regarded as generally being a compliance audit?
- (A) IRS agents' examinations of taxpayer returns
 - (B) GAO auditor's evaluation of the computer operations of governmental units
 - (C) an internal auditor's review of a company's payroll authorization procedures
 - (D) a CPA firm's audit of a public company
- (2) Which of the following instances would impair a CPA's independence when they have been retained as the auditor?
- I. A charitable organization where the CPA serves as treasurer
 - II. A municipality where the CPA owns \$250,000 of the \$25 million outstanding bonds of the municipality
 - III. A company that the CPA's investment club owns a 10% investment interest
- (A) I and II
 - (B) I and III
 - (C) II and III
 - (D) I, II, and III
- (3) The King Surety Company wrote a general fidelity bond covering thefts of assets by the employees of Wilson, Inc. Thereafter, Cooney, an employee of Wilson, embezzled \$17,200 of company funds. When the activities were discovered, King paid Wilson the full amount in accordance with the terms of the fidelity bond, and then sought recovery against Wilson's auditors, Lynch & Merritt, CPAs. Which of the following would be Lynch & Merritt's best defense?
- (A) King is not in privity of contract.
 - (B) The shortages were the result of clever forgeries and collusive fraud which would not be detected by an examination made in accordance with generally accepted auditing standards.
 - (C) Lynch & Merritt were not guilty either of gross negligence or fraud.
 - (D) Lynch & Merritt were not aware of the King-Wilson surety relationship.
- (4) Which of the following is an accurate statement regarding audit risk, audit failure, and business failure?
- (A) Audit risk is always avoidable if the audit is conducted in accordance with generally accepted auditing standards.
 - (B) Because auditors gather evidence on a test basis, and because well-concealed frauds are difficult to detect, audit risk is unavoidable.
 - (C) Legal precedent makes it easy to determine who has the right to recover losses in the event of an audit failure.
 - (D) A business failure will always result in an audit failure.

- (5) In describing the cycle approach to segmenting an audit, which of the following statements is not true?
- (A) All general ledger accounts and journals are included at least once.
 - (B) Some journals and general ledger accounts are included in more than one cycle.
 - (C) The "capital acquisition and repayment" cycle is closely related to the "acquisition of goods and services and payment" cycle.
 - (D) The "inventory and warehousing" cycle may be audited at any time during the engagement since it is unrelated to the other cycles.
- (6) When the auditor identifies or suspects noncompliance with laws and regulations, the auditor
- (A) should discuss the matter with those whom they believe committed the illegal act.
 - (B) begin communication with the FASB in accordance with PCAOB regulations.
 - (C) may disclaim an opinion on the basis of scope limitations if he is precluded by management from obtaining sufficient appropriate evidence.
 - (D) should withdraw from the engagement.
- (7) The auditor is concerned that a client is failing to bill customers for shipments. An audit procedure that would gather relevant evidence would be to
- (A) select a sample of duplicate sales invoices and trace each to related shipping documents.
 - (B) trace a sample of shipping documents to related duplicate sales invoices.
 - (C) trace a sample of Sales Journal entries to the Accounts Receivable subsidiary ledger.
 - (D) compare the total of the Schedule of Accounts Receivable with the balance of the Accounts Receivable account in the general ledger.
- (8) The purpose of the requirement in having communication between the predecessor and successor auditors is to
- (A) allow the predecessor to disclose information which would otherwise be confidential.
 - (B) help the successor auditor to evaluate whether to accept the engagement.
 - (C) help the client by facilitating the change of auditors.
 - (D) ensure the predecessor collects all unpaid fees prior to a change in auditor.
- (9) Which is a true statement about audit risk?
- (A) Audit risk measures the risk that a material misstatement could occur and not be detected by internal control.
 - (B) When auditors decide on a higher acceptable audit risk, they want to be more certain that the financial statements are not materially misstated.
 - (C) Audit assurance is the complement of acceptable audit risk.
 - (D) There is an inverse relationship between acceptable audit risk and planned detection risk.

- (10) Which of the following is not a factor that relates to opportunities to commit fraudulent financial reporting?
- (A) lack of controls related to the calculation and approval of accounting estimates
 - (B) ineffective oversight of financial reporting by the board of directors
 - (C) management's set of ethical values
 - (D) high turnover of accounting, internal audit, and information technology staff
- (11) The auditors primary purpose in auditing the client's system of internal control over financial reporting is
- (A) to prevent fraudulent financial statements from being issued to the public.
 - (B) to evaluate the effectiveness of the company's internal controls over all relevant assertions in the financial statements.
 - (C) to report to management that the internal controls are effective in preventing misstatements from appearing on the financial statements.
 - (D) to efficiently conduct the Audit of Financial Statements.
- (12) You are performing the audit of internal control for Clifton Company. Which of the following would represent a material weakness in internal control?
- (A) The company's audit committee has experienced unusual turnover of members.
 - (B) The company's CFO was indicted for embezzling from the company.
 - (C) Bank reconciliations are done monthly.
 - (D) The CEO retired after twenty years of service to the company.
- (13) Which of the following statements is not true?
- (A) Analytical procedures emphasize the overall reasonableness of transactions and balances.
 - (B) Tests of controls are concerned with evaluating whether controls are sufficiently effective to justify reducing control risk and thereby reducing analytical review procedures.
 - (C) Substantive tests of transactions emphasize the verification of transactions recorded in the journals and then posted in the general ledger.
 - (D) Tests of details of balances emphasize the ending balances in the general ledger.
- (14) Smith Manufacturing Company's accounts receivable clerk has a friend who is also a customer of Smith Manufacturing. The accounts receivable clerk has issued fictitious credit memos to his friend for goods supposedly returned. The most effective procedure for preventing this activity is to
- (A) prenumber and account for all credit memorandums.
 - (B) require receiving reports that provide evidence of returned inventory items to support all credit memorandums before they are approved.
 - (C) have independent sales and accounts receivable departments.
 - (D) mail monthly statements to customers.

- (15) When determining tolerable exception rate (TER),
- (A) the auditor considers the degree of reliance to be placed on the control and the significance of the control to the audit.
 - (B) if only one internal control is used to support a low control risk assessment for an objective, TER will be higher for the attribute than if multiple controls are used to support a low control risk assessment for the same objective.
 - (C) control deviations increase both the risk of material misstatements in the accounting record, and will always result in misstatements.
 - (D) a smaller sample size is needed for a low TER than for a high TER.
- (16) You are reviewing sales to discover cutoff problems. If the client's policy is to record sales when title to the merchandise passes to the buyer, then the books and records would contain errors if the December 31 entries were for sales recorded
- (A) before the merchandise was shipped.
 - (B) at the time the merchandise was shipped.
 - (C) several days subsequent to shipment.
 - (D) at a time after the point at which title passed.
- (17) With respect to a small company's system of purchasing supplies, an auditor's primary concern should be to obtain satisfaction that supplies ordered and paid for have been
- (A) requested by and approved by the same individual.
 - (B) used in the course of business and solely for business purposes during the year under audit.
 - (C) received, counted, and checked to quantities and amounts on purchase orders and invoices.
 - (D) properly recorded as assets and systematically amortized over the estimated useful life of the supplies.
- (18) If the auditor concludes that there are contingent liabilities, he or she must evaluate the significance of the potential liability and the nature of the disclosure needed in the financial statements. Which of the following statements is not true?
- (A) The potential liability is sufficiently well known in some instances to be included in the financial statements as an actual liability.
 - (B) Disclosure may be unnecessary if the contingency is highly remote or immaterial.
 - (C) A CPA firm often obtains a separate evaluation of the potential liability from its own legal counsel rather than relying on management or management's attorneys.
 - (D) The client's attorneys must remain independent when evaluating the likelihood of losing the lawsuit.

- (19) To determine if notes payable are included in the proper period, the auditor should
- (A) trace the cash received from the issuance to the accounting records.
 - (B) examine duplicate copies of notes to determine whether the notes were dated on or before the balance sheet date.
 - (C) examine duplicate copies of notes for principal and interest rates.
 - (D) trace the individual notes payable to the master file.
- (20) The auditor is testing for unrecorded retirements/disposals of equipment. Which of the following audit procedures would the auditor most likely use?
- (A) Select items from the fixed asset master file and then physically locate them.
 - (B) Examine the repairs and maintenance amount for large debits.
 - (C) Compare current year's depreciation expense with the previous year's depreciation expense.
 - (D) Trace acquisition documents to the fixed asset master file.

Part II: Problems (40 points)

Please answer the following problems carefully in English. Your answers have to be clear and precise.

- (1) According to International Standard on Auditing (ISA) 701 "Communicating key audit matters in the independent auditor's report", what are key audit matters? And what is the purpose of communicating key audit matters in the audit report? (15 points)
- (2) What are the potential impacts of revealing the materiality thresholds in the audit report? (15 points)
- (3) According to new and revised auditor reporting standards (such as ISA 700, ISA 701, ISA 705, ISA 706, and ISA 570...), please identify what type of audit opinion in the following example (***Independent Auditor's report to the members of NCKU company***). (10 points)

**Independent Auditor's report
to the members of NCKU Company**

We have audited the financial statements of NCKU Company for the year ended 31 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs)

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2017 and of the company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs;

Our assessment of risks of material misstatement

We identified the following risks that we considered to have had the greatest impact on our audit strategy and scope:

Risk area	Reason	Audit response
Going Concern	The Company has incurred operating losses during the year and in the absence of further funding the going concern assumption presents significant challenges in relation to liquidity.	We reviewed the directors assessment of going concern and underlying sensitivities considered in the strategic report on pages 8 and 9. We reviewed the cash flow forecasts prepared by the management and compared with historic cash inflows and outflows and current working capital requirements in light of developments to the date of approval of the financial statements. We compared the forecasts provided by the management in prior years with the actual results to assess reliability of the information provided. Subsequent to the year end the company has sold its assets held for sale and realised cash proceeds of £1.7m. This has

		<p>significantly improved the liquidity position. We reviewed the sale agreement and cash received in the bank.</p>
<p>Revenue recognition</p>	<p>Revenue recognition is considered to be a significant audit risk as it is the key driver of returns to investors and could be subject to management override.</p>	<p>Interest charged on the loans and leases portfolio held in Credit Asset Management Limited and Professions Funding Limited is based on the automatic calculations within their loans and leases system. We tested the operation and effectiveness of the key controls within this system and reviewed a sample of transactions to check it performs the calculation of interest correctly. We have recalculated the interest earned on loans to related parties by reference to the terms of the funding agreements with those entities. We recalculated the fee charged for managing the loans and leases portfolios of managed accounts based on the terms agreed with the relevant investors. In respect of trade finance income, for a sample of trades we recalculated the revenue recorded with reference to the terms within the trade agreement.</p>
<p>The Audit Committee's consideration of these judgements is set out on page 12.</p>		
<p>Purpose of this report</p>		
<p>This report is made solely to the company's members. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume</p>		

responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing. Those standards require us to comply with the Ethical Standards for Auditors.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to three levels of materiality, the quantum and purpose of which are tabulated overleaf.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality	Assessing whether the financial statements as a whole present a true and fair view.	<ul style="list-style-type: none"> The value of total assets The level of judgement inherent in the carrying values of the assets Potential impairment of investment carrying values 	190,000
Performance materiality	Assessing sample sizes and selecting transactions and balances for testing.	<ul style="list-style-type: none"> The likelihood of error within the population The history of error 	123,500

We agreed with the Audit Committee that we would report all audit differences in excess of £3,800, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

○○○(senior statutory auditor)
 For and on behalf of XXX Audit Firm
 Audit Firm's Adress
 05 March 2018