

國立成功大學

115學年度碩士班招生考試試題

編 號：150

系 所：會計學系

科 目：審計學

日 期：0204

節 次：第 2 節

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Part I: Multiple-Choice Questions: Select the best answer for each of the following questions. (2 points for each question) (34 points)

1. Each of the following is an appropriate objective of the auditor's communication with those charged with governance under generally accepted auditing standards, except:
 - A. To discuss significant risks identified during the audit and how the auditor plans to address those risks.
 - B. To communicate significant difficulties encountered during the audit, including delays and restrictions imposed by management.
 - C. To seek concurrence from those charged with governance regarding the auditor's planned audit responses to assessed risks.
 - D. To obtain information relevant to the entity's governance structure and oversight of the financial reporting process.
2. A CPA plans to use stratified random sampling to test the valuation of accounts receivable balances. To improve audit efficiency, the CPA should define the strata so that
 - A. Each stratum contains approximately the same number of customer accounts to ensure balanced sampling across groups.
 - B. Balances within each stratum are relatively homogeneous, while differences across strata are maximized.
 - C. The estimated misstatement rate is identical for all strata to simplify the evaluation of sample results.
 - D. Each stratum includes accounts selected according to identical probability distributions.
3. A CPA uses the mean-per-unit (MPU) method to test the inventory balance of a manufacturing client. The following information is obtained from the audit sample:

Item	Amount
Recorded inventory balance	\$1,200,000
Point estimate of inventory value	\$1,186,000
Incremental allowance for sampling risk	\$30,000
Tolerable misstatement	\$70,000

Based on the sample results, which of the following conclusions is most appropriate?

- A. The audit results indicate a potential misstatement of \$14,000 in the recorded inventory balance.
 - B. The inventory balance is materially misstated because the projected misstatement exceeds the tolerable misstatement.
 - C. The inventory balance is not materially misstated because the upper misstatement limit does not exceed the tolerable misstatement.
 - D. No conclusion can be reached because the incremental allowance for sampling risk exceeds the projected misstatement.
4. Several years ago, Atlas Co. issued long-term bonds payable that remain outstanding at year-end. Which of the following audit procedures would be least likely to provide relevant evidence regarding the year-end bond liability balance?

- A. Examine trustee statements showing bond principal outstanding at year-end.
 - B. Recompute interest expense and accrued interest payable for the period.
 - C. Inspect the bond indenture for repayment terms and maturity dates.
 - D. Review minutes of the board of directors' meetings approving the bond issuance.
5. In estimating the total value of supplies carried on repair vans, Lin Company draws random samples from two equal-sized strata of vans. The mean value of supplies on the larger vans (stratum 1) was computed at \$1,050, with a standard deviation of \$120. On the smaller vans (stratum 2), the mean value was computed as \$950, with a standard deviation of \$80.

If Lin had drawn an unstratified sample from the entire population of vans, the expected mean value of supplies per van would be \$1,000, and the expected standard deviation would be

- A. Exactly \$147.50.
 - B. Greater than \$250.
 - C. Less than \$45.
 - D. Between \$45 and \$250, but not \$147.50.
6. The auditor is engaged to audit the 2024 financial statements of Company Kung. Accounts receivable represent 35 percent of total assets. During the audit, the following circumstances are noted:
- 1. Management requests that the auditor not send accounts receivable confirmations to several customers, citing concerns about maintaining business relationships. These customers together account for 25 percent of the accounts receivable balance.
 - 2. In response, the auditor performs extensive alternative audit procedures, including the examination of subsequent cash receipts covering more than 80 percent of the restricted balances, detailed shipping documents, and customer contracts. These procedures provide persuasive evidence regarding the existence and valuation of the related accounts receivable.
 - 3. No significant deficiencies in internal control over revenue recognition or cash collections are identified, and the auditor is unable to identify any material misstatements related to accounts receivable.

Under these circumstances, if management maintains the restriction on confirmations, which of the following audit opinions is most appropriate?

- A. Unqualified opinion, because the auditor obtained sufficient appropriate audit evidence through alternative procedures, despite management's restriction on confirmations.
- B. Qualified opinion, because management-imposed restrictions on confirmations constitute a scope limitation that is material but not pervasive.
- C. Adverse opinion, because management's refusal to allow confirmations indicates intentional misstatement of accounts receivable.
- D. Disclaimer of opinion, because any restriction on confirmations necessarily results in an inability to form an audit opinion.

7. Harrison Co. has replaced its manual inventory requisition and issuance system with an integrated enterprise resource planning (ERP) system. Under the new system, inventory requests, approvals, and issuances are recorded electronically, and inventory balances are updated automatically in real time. Because of this change, which of the following statements is most likely correct?
- A. The auditor must rely exclusively on generalized audit software to obtain sufficient appropriate audit evidence.
 - B. The nature and availability of the audit trail for inventory transactions have changed.
 - C. The risk of inventory-related fraud is eliminated because transactions are processed automatically.
 - D. Inventory transactions must now be processed using batch processing rather than real-time processing.
8. Orion Technologies, Inc. is an audit client of Lewis & Chen, CPAs. Consider the following three independent situations:
- (1) A partner of Lewis & Chen leases office space to Orion Technologies under a sales-type lease.
 - (2) A senior auditor assigned to the engagement has a sibling working as a sales representative at Orion Technologies.
 - (3) A manager on the engagement states that, due to repeated conflicts with Orion's CEO, she cannot remain objective when performing the audit.
- Which of the following correctly describes the auditor's independence in each situation?
- A. (1) Independent; (2) Independent; (3) Independent
 - B. (1) Not independent in appearance; (2) Independent; (3) Not independent in fact
 - C. (1) Not independent in appearance; (2) Not independent in appearance; (3) Independent
 - D. (1) Not independent in appearance; (2) Not independent in fact; (3) Not independent in fact
9. Which of the following statements regarding internal control is correct?
- A. Internal control can prevent collusion among employees when duties are properly segregated.
 - B. The auditor is responsible for establishing and maintaining the client's internal control system.
 - C. Effective internal control allows the auditor to eliminate substantive procedures for material account balances.
 - D. Internal control is designed by management to provide reasonable assurance, considering costs and benefits.
10. Which of the following situations most strongly indicates a heightened risk of payroll fraud in a computerized payroll system?
- A. Payroll transactions are processed automatically by the system, and exception reports are reviewed monthly by the payroll supervisor.
 - B. Human resources maintains the employee master file, while payroll processing and distribution of pay are handled by separate departments.
 - C. The system allows department supervisors to approve time worked and to authorize changes to pay rates without independent review.
 - D. Employees use unique login credentials to record time worked, and access rights are updated annually.

11. An auditor noted that the accounts receivable department is separate from other accounting activities. Credit is approved by a separate credit department. Control accounts and subsidiary ledgers are balanced monthly. Similarly, accounts are aged monthly. The accounts receivable manager writes off delinquent accounts after 1 year, or sooner if a bankruptcy or other unusual circumstances are involved. Credit memoranda are prenumbered and must correlate with receiving reports. Which of the following areas could be viewed as an internal control deficiency of the above organization?

- A. Write-offs of delinquent accounts.
- B. Credit approvals.
- C. Monthly aging of receivables.
- D. Handling of credit memos.

12. Nova Systems Ltd.'s fiscal year ended December 31, 2024. The auditor's report was dated March 5, 2025, and the financial statements were issued on March 10, 2025. Consider the following independent situations:

- (1) On January 18, 2025, a major customer declared bankruptcy. The customer's financial difficulties were unknown at December 31, 2024 and resulted from events occurring in January 2025.
- (2) On February 12, 2025, Nova settled a lawsuit related to events that occurred in 2023. At December 31, 2024, Nova had accrued an estimated liability that was materially lower than the settlement amount.
- (3) On March 20, 2025, after the financial statements were issued, the auditor became aware of information indicating that inventory at December 31, 2024 was materially overstated due to pricing errors that existed at year-end.

Which of the following correctly describes the appropriate accounting or auditing treatment for each situation?

- A. (1) Adjust the financial statements; (2) Disclose only; (3) No further auditor responsibility
- B. (1) Disclose only; (2) Adjust the financial statements; (3) Discuss with management whether the financial statements should be revised
- C. (1) No adjustment or disclosure; (2) Adjust the financial statements; (3) Dual-date the audit report
- D. (1) Adjust the financial statements; (2) Adjust the financial statements; (3) Withdraw the audit opinion

13. In October 2024, Super Micro Computer, Inc. replaced its external auditor following disagreements related to internal control deficiencies and financial reporting matters. A CPA firm is evaluating whether to accept Super Micro Computer as a new audit client.

Which of the following circumstances would most likely require the CPA firm to decline acceptance of the audit engagement?

- A. Management disputes the predecessor auditor's conclusions regarding internal control effectiveness but indicates a willingness to cooperate fully and provide access to personnel and documentation throughout the audit.

- B. The client operates in a fast-growing industry characterized by rapid technological change, complex revenue recognition arrangements, and increased reliance on management estimates and judgments.
 - C. The auditor concludes that key prior-period information is unavailable and alternative procedures are unlikely to provide sufficient audit evidence.
 - D. The client faces increased regulatory scrutiny after changing auditors and expects more extensive audit procedures and documentation to satisfy investor and regulator concerns.
14. Assume the same background for Super Micro Computer, Inc. The CPA firm continues to evaluate whether to accept the engagement.

Which of the following circumstances would most likely indicate that the engagement may be accepted, but requires enhanced risk assessment and specific responses under the firm's quality management policies?

- A. Significant internal control deficiencies exist, but management allows unrestricted access and commits to remediation.
- B. Relevant accounting records cannot be obtained in a timely manner, and the firm anticipates that alternative procedures will not be sufficient to address opening balance and prior-period audit concerns.
- C. Management refuses to communicate with the predecessor auditor regarding unresolved accounting issues and declines to authorize the release of prior working papers.
- D. The firm determines that it cannot comply with applicable independence requirements due to existing financial or business relationships with the client.

15. Assume that the CPA firm accepted Super Micro Computer, Inc. as an audit client. During the current-year audit, new information comes to the firm's attention.

Which of the following circumstances would most likely require the CPA firm to withdraw from the engagement?

- A. Management challenges the auditor's professional judgments throughout the audit but ultimately records all proposed audit adjustments and provides representations supporting the financial statements.
- B. Management intentionally restricts access to critical information needed to obtain sufficient audit evidence.
- C. The audit involves complex accounting estimates, extensive consultation with technical specialists, and increased supervision by senior engagement personnel.
- D. Internal control deficiencies remain unresolved at year-end, requiring expanded substantive testing and additional audit documentation.

16. In an audit of financial statements, the auditor relied primarily on analytical procedures as substantive tests for a revenue account. No material misstatements were identified. However, a subsequent review revealed that revenue had been materially misstated.

Which of the following is the most likely reason the analytical procedures failed to detect the misstatement?

- A. The misstatement was offset by opposite misstatements in different product lines, causing overall revenue trends to appear reasonable when viewed in aggregate.
- B. The auditor documented the analytical procedures in detail but did not include a description of how the procedures related to specific financial statement assertions.

- C. The auditor established expectations using reliable nonfinancial data and applied a narrow threshold for investigating differences between recorded amounts and expected amounts.
- D. The auditor performed analytical procedures at both the overall financial statement level and the individual account level using consistent methods and assumptions across periods.
17. An auditor performing analytical procedures for a wholesaler notes that inventory turnover increased by 30% compared with the prior year, while **net sales remained relatively flat** and gross profit margins did not materially change. The results of the analytical procedures most likely indicate that
- A. The unit cost of inventory has declined due to supplier discounts.
- B. Inventory shrinkage, such as theft or loss, may be occurring.
- C. Revenue has been overstated through fictitious sales transactions.
- D. Ending inventory has been intentionally overstated by management.

Part II: Case-Based Questions: Select the best answer for each question based on the information provided. (3 points for each question) (66 points)

Case-Based Questions – Set A

Background Context

In 2023, the collapse of Silicon Valley Bank raised widespread concerns about the effectiveness of Critical Audit Matters (CAMs) in alerting investors to significant risks. In the aftermath of the failure, commentators, regulators, and litigants questioned whether audit reports had meaningfully conveyed the most relevant sources of financial vulnerability:

While courts have repeatedly emphasized that auditing provides only reasonable assurance and does not serve as a guarantee against corporate failure, the Silicon Valley Bank case renewed debate over whether CAM disclosures have fulfilled their intended role of enhancing audit transparency and investor understanding.

Please read the following three paragraphs and answer the questions that follow.

(Adapted from The Wall Street Journal for examination purposes)

Paragraph 1

When auditors issued a clean audit opinion for Silicon Valley Bank shortly before its collapse, the audit report identified potential credit losses on loans as a critical audit matter. However, the report did not discuss the bank's substantial unrealized losses on its bond portfolio, nor did it address whether the bank could realistically hold those securities given its heavy reliance on deposits that could rapidly be withdrawn. This omission raised concerns about whether the audit opinion fully reflected the most significant risks facing the bank at the time.

Paragraph 2

Under auditing standards, critical audit matters are those arising from the audit of material accounts or disclosures that involve especially challenging, subjective, or complex judgments by the auditor. Silicon Valley Bank classified a large portion of its bond holdings as held-to-maturity (HTM), which allowed the securities to be measured at cost rather than fair value. This classification is permitted only when management has both the intent and the ability to hold the securities until maturity. For deposit-funded banks, assessing this ability requires considerable judgment, particularly when liquidity conditions are uncertain.

Paragraph 3

Critics argue that auditors focused too narrowly on traditional credit risk while failing to adequately consider the interaction between interest-rate risk and liquidity risk. Although auditing standards do not require auditors to anticipate extremely remote events, former regulators have questioned whether CAM disclosures have been used as fully as intended to draw investors' attention to emerging risks that could materially affect a firm's financial condition.

18. Which of the following best explains why unrealized losses on held-to-maturity securities at Silicon Valley Bank could qualify as a Critical Audit Matter (CAM)?
- A. Because the bank's subsequent collapse demonstrated that the bond losses were economically severe and should therefore have been emphasized in hindsight.
 - B. Because auditing standards automatically require all significant bond losses to be disclosed as critical audit matters.
 - C. Because the classification involved material amounts and required complex auditor judgment regarding management's intent and the bank's liquidity-driven ability to hold the securities.
 - D. Because regulatory criticism after the reporting date suggested that auditors were expected to disclose bond losses more prominently.
19. Why does the article suggest that the audit opinion may have been incomplete?
- A. Because any audit opinion issued shortly before a bank failure is inherently unreliable.
 - B. Because the audit highlighted credit risk in loan portfolios but omitted discussion of bond-related losses and the bank's ability to hold those securities.
 - C. Because the audit report failed to include an explicit warning about a possible liquidity crisis, especially risks related to loan portfolios.
 - D. Because management disclosures were later questioned, calling into doubt the accuracy of the audited financial statements.
20. The article criticizes auditors primarily for failing to:
- A. Consider the combined effect of interest-rate risk and liquidity risk rather than focusing mainly on traditional credit risk.
 - B. Anticipate rare and extreme scenarios, such as rapid, social-media-driven depositor runs.
 - C. Reevaluate internal controls related to treasury and investment activities.
 - D. Require fair value measurement for all bond holdings regardless of accounting classification, in order to accurately reflect the impact of fair value changes on Silicon Valley Bank.
21. Based on the reading, which issue is most likely to have warranted explicit discussion with the audit committee, even if it did not appear as a CAM?
- A. Whether loan-loss assumptions remained consistent with prior-year modeling choices.
 - B. Whether deposit volatility could constrain the ability to keep HTM securities unsold.
 - C. Whether deposit growth reflected competitive pricing strategies in local markets.
 - D. Whether credit-risk grading policies were applied uniformly across business units.

22. Which inference is most consistent with the article's critique of current CAM practice?
- A. CAM disclosures mainly shift legal responsibility from firms to auditors in litigation.
 - B. CAMs fail because HTM accounting prevents investors from seeing any valuation signals.
 - C. CAMs may privilege familiar risk frames and understate cross-risk interactions in crises.
 - D. CAM rules discourage disclosure because reporting more items always increases audit fees.
23. Which of the following statements is MOST consistent with the auditor's responsibility under ISA 570 / PCAOB AS 2415, as applied to the Silicon Valley Bank case?
- A. Because the bank failed shortly after the audit report date, the auditor should have issued a modified opinion.
 - B. If significant uncertainty existed, auditing standards required the auditor to predict whether the bank would collapse in the near term.
 - C. The auditor's responsibility was to evaluate management's going concern assessment based on information available at the audit date.
 - D. The auditor was required to issue a qualified opinion whenever material risks to liquidity were identified.

Case-Based Questions – Set B

In March 2025, auditors of UBS Group, the Swiss bank that acquired Credit Suisse in 2023, issued an adverse opinion on UBS's internal control over financial reporting. This opinion followed ongoing challenges in integrating Credit Suisse's business and resolving legacy control weaknesses originally identified at Credit Suisse. The auditor concluded that, as of December 31, 2024, internal controls were not effective due to material weaknesses inherited from the acquired entity. UBS acknowledged these issues and stated that remediation efforts were underway, but it had not yet fully resolved them.

Credit Suisse had faced control deficiencies for several years before its collapse, and some of these issues were discussed with regulators during its final months of independence. Following the merger, UBS continued to investigate and address the misstatements and control lapses that emerged from Credit Suisse, including questions about how financial data were recorded and reported. The adverse opinion highlights the broader challenges of auditing internal control post-merger and raises questions about auditors' roles in evaluating control environments when significant structural changes occur within an entity.

24. Which of the following statements is MOST consistent with the auditor's reasoning in the passage about UBS's adverse opinion regarding internal control over financial reporting?
- A. The adverse opinion indicates that UBS's historical financial statements were materially misstated.
 - B. The adverse opinion primarily reflects unresolved material weaknesses inherited from Credit Suisse.
 - C. An adverse opinion mandates that UBS must restate its financial statements for prior periods.
 - D. The adverse opinion shows that auditors failed to consider the effects of the merger on UBS's financial position.
25. Based on the passage, which of the following is LEAST appropriate as an inference about the auditor's evaluation of internal control post-merger?

- A. Auditors must assess the effectiveness of internal controls over financial reporting after a significant acquisition.
- B. Legacy control weaknesses from an acquired company can affect the combined entity's control environment.
- C. Remediation of control weaknesses is essential to achieving an effective control environment.
- D. The adverse opinion suggests that UBS's management intentionally misled auditors about Credit Suisse's financials.
26. Which of the following statements BEST explains when an auditor is required to issue an opinion on internal control over financial reporting?
- A. Whenever significant control deficiencies are identified during the audit of financial statements.
- B. When auditing standards require auditors to assess internal control as part of risk assessment procedures.
- C. Whenever an entity experiences a major merger or acquisition that affects financial reporting systems.
- D. When applicable regulation requires a separate audit of internal control, such as under U.S. SOX 404(b).

Case-Based Questions – Set C

Background Context

In recent years, investors have increasingly relied on audit reports as indicators of corporate credibility. However, court decisions following major investment losses have raised questions about the legal significance of audit opinions and the extent to which auditors can be held responsible for investor harm. Please read the following two paragraphs and answer the questions that follow.

(Adapted from The Wall Street Journal for examination purposes)

Paragraph 1

After investors suffered heavy losses, they questioned why auditors had not prevented or warned against the financial problems that later emerged. A federal appeals court dismissed the claims against the audit firm, emphasizing that audit opinions are generalized professional judgments rather than statements directed at individual investors. The court concluded that investors could not reasonably claim that they relied on the audit opinion when making their investment decisions.

Paragraph 2

The court further explained that audit reports are standardized documents prepared to satisfy professional and regulatory requirements, not to guide specific investment choices. As a result, even if an audit opinion is later criticized as incomplete or overly cautious, this alone does not establish legal liability. The ruling reflects a broader judicial view that auditors are not insurers against investment losses.

27. According to the article, why did the court dismiss investors' claims against the auditor?
- A. Because the auditor had complied with professional standards in all material respects and fulfilled its duty of due professional care.
- B. Because audit opinions are general in nature and not a reasonable basis for individual investment reliance.
- C. Because investors failed to demonstrate that the company had engaged in fraudulent conduct.
- D. Because the audit report explicitly denied any responsibility to outside parties.
28. What role do audit reports play, according to the court's reasoning?

- A. They function primarily as warning signals for potential corporate failure.
- B. They serve as standardized compliance documents rather than tools for investment decisions.
- C. They provide firm-specific guidance for assessing past performance and predicting future financial performance.
- D. They substitute for regulatory oversight in financial reporting by acting as gatekeepers.

Case-Based Questions – Set D

Background Context

In 2025, a high-profile theft at the Louvre Museum reignited debate over governance, internal control, and accountability in publicly funded cultural institutions. Following the incident, France's state auditor released a critical report examining the museum's financial priorities and its handling of previously identified security risks.

The case has drawn attention to broader questions familiar to auditing and governance scholars: how organizations allocate limited resources among competing objectives, how management responds to prior audit findings, and whether adverse outcomes necessarily imply failures in oversight. While the role of external auditors is not to prevent crimes, the Louvre case highlights tensions between long-term strategic goals and the ongoing responsibility to safeguard existing assets.

Please read the following three paragraphs and answer the questions that follow.

(Adapted from The Wall Street Journal for examination purposes)

Paragraph 1

In the years leading up to the 2025 heist, the Louvre Museum devoted a substantial share of its financial resources to expanding its art collection. According to a report by France's state audit institution, the museum spent more than €100 million on acquiring new artworks between 2018 and 2024, while allocating far less to the maintenance and security of its existing holdings. During the same period, management advanced only a small portion of a comprehensive security-upgrade plan, even as the museum continued to attract record numbers of visitors and generate significant revenue from ticket sales and licensing arrangements.

Paragraph 2

The auditor noted that concerns over security were not new. A prior audit completed in 2017 had already identified major weaknesses, including insufficient surveillance coverage and limited preparedness for security incidents. Despite these findings, progress on remediation was slow. Large sections of the museum reportedly remained without camera coverage, creating blind spots in key exhibition areas. In 2025, thieves exploited one such vulnerability, using relatively simple tools and techniques to gain access and steal valuable crown jewels in a matter of minutes. The incident prompted renewed scrutiny of whether management had adequately addressed known risks.

Paragraph 3

In response, the Louvre emphasized the long-term importance of art acquisitions, arguing that purchasing artworks helps preserve national heritage and enhances France's global cultural influence. Museum officials also pointed to statutory rules requiring a fixed share of ticket revenue to be used for acquisitions. The auditor, however, questioned whether these considerations justified the prolonged underinvestment in security, particularly given the scale and value of the existing collection. The report concluded that effective

governance requires not only identifying risks, but also ensuring timely and proportionate follow-up actions when those risks are well documented.

29. Which of the following best captures the primary concern raised by the state auditor regarding the Louvre's internal control environment?
- A. The museum lacked sufficient financial resources to address both acquisitions and security needs.
 - B. Management failed to recognize security risks associated with operating a major tourist attraction.
 - C. Previously identified security weaknesses were not adequately remediated over time.
 - D. The theft demonstrated that modern security systems are ineffective against determined criminals.
30. From a governance and audit follow-up perspective, the auditor's assessment most strongly suggests that:
- A. management reasonably prioritized long-term cultural objectives over short-term operational risks.
 - B. statutory funding rules constrained management's ability to respond to audit recommendations.
 - C. identifying risks without ensuring corrective action undermines effective oversight.
 - D. responsibility for security failures rests primarily with external regulators.
31. Which statement best reflects the auditor's implied view on the relationship between the 2025 heist and managerial responsibility?
- A. The occurrence of the theft alone conclusively proves mismanagement.
 - B. Management should be evaluated based on decisions made before the incident occurred.
 - C. Criminal acts of this nature are inherently unforeseeable and unavoidable.
 - D. Responsibility depends primarily on the sophistication of the criminals involved.
32. Which of the following arguments would the auditor be least likely to accept as a sufficient explanation for delayed security upgrades?
- A. Acquisitions contribute to preserving national heritage and international prestige.
 - B. Limited budgets require trade-offs among competing institutional goals.
 - C. Mandatory allocation rules fully excuse prolonged underinvestment in security.
 - D. Long-term sustainability depends on balancing expansion with asset protection.
33. Based on the passage, which of the following is LEAST appropriate as an inference about the auditor's reasoning?
- A. The heist underscores the consequences of unresolved control deficiencies.
 - B. The heist, by itself, is the central basis for the auditor's critical conclusions.
 - C. Prior audit findings heighten expectations for management accountability.
 - D. Slow remediation of known risks can increase exposure to operational losses.

Case-Based Questions – Set E

Background Context

Recent legal challenges have disrupted the implementation of mandatory climate disclosure rules proposed by the U.S. Securities and Exchange Commission (SEC). While investors increasingly view climate risk as financially relevant, uncertainty remains regarding whether such disclosures fall within the scope of auditors' professional responsibilities.

Paragraph 1

The SEC voted to stop defending its climate disclosure rules in court after facing challenges that questioned the agency's authority to mandate extensive climate-related reporting. As a result, federal requirements for climate disclosures have effectively stalled, even though companies continue to face pressure from investors and foreign or state-level regulations to provide such information voluntarily.

Paragraph 2

The decision has intensified debate over auditors' responsibilities for climate-related information. Although climate risks may affect a company's long-term financial condition, most related disclosures appear outside audited financial statements, such as in sustainability reports or narrative sections of regulatory filings.

Auditing standards emphasize that the auditor's responsibilities are defined by the scope of the financial statement audit, not by investor expectations or regulatory trends.

34. Following the SEC's decision, which statement best reflects the auditor's responsibility for climate-related disclosures under auditing standards?
- A. Auditors' responsibilities are generally limited to information included in the audited financial statements, except for reading other information for material inconsistency.
 - B. Auditors are required to extend audit procedures to all climate-related disclosures included in regulatory filings.
 - C. Auditors must provide assurance on climate disclosures whenever such information is considered financially material by investors.
 - D. Auditors must modify the audit opinion if climate risks are not disclosed in sustainability reports.
35. What is the most appropriate implication of the SEC's withdrawal from defending the climate disclosure rules?
- A. Auditors' responsibilities expand automatically as regulatory enforcement weakens.
 - B. Auditors are relieved of considering climate-related matters in audit planning.
 - C. Changes in disclosure mandates do not alter auditors' responsibilities within the scope defined by auditing standards.
 - D. Climate-related risks are irrelevant to auditors unless explicitly required by regulation.
36. The expectation gap highlighted in the reading primarily arises because:
- A. Auditing standards require auditors to forecast future climate-related losses.
 - B. Auditors' responsibilities are defined by professional standards, while investor expectations often extend beyond those standards.
 - C. Investors assume that all regulatory disclosures receive audit-level assurance.
 - D. Courts have failed to distinguish disclosure obligations from audit duties.

Case-Based Questions – Set F**Background Context**

Climate-related matters increasingly affect financial reporting, not only through disclosure but also through formal recognition and measurement. Recently, the Financial Accounting Standards Board (FASB) issued guidance establishing how companies should account for environmental credits under U.S. GAAP.

Paragraph 1

The FASB issued new accounting guidance specifying how companies should recognize and measure environmental credits, such as carbon offsets and renewable energy certificates. Under the guidance, these credits are generally recorded at cost and tested for impairment, bringing them directly into audited financial statements for the first time.

Paragraph 2

To reduce compliance burdens, the FASB limited disclosure requirements related to environmental credits. As a result, auditors must place greater emphasis on evaluating management judgment, estimation uncertainty, and impairment assumptions. The accounting change also requires auditors to reassess audit risk and adjust audit procedures accordingly.

37. Why does the new FASB guidance materially affect auditors' responsibilities?

- A. It requires auditors to provide separate ESG assurance engagements.
- B. It mandates fair value measurement and extensive narrative disclosure.
- C. It eliminates management judgment in accounting for environmental credits.
- D. It shifts certain climate-related items from disclosure into recognition within audited financial statements.

38. Which audit implication most directly results from the FASB's decision to limit disclosure requirements?

- A. Greater emphasis on professional skepticism in assessing management's assumptions, estimates, and impairment judgments, particularly when reduced disclosure increases estimation uncertainty.
- B. Increased reliance on internal controls over sustainability reporting, as auditors shift emphasis from substantive testing to control-based assurance in response to streamlined disclosure obligations.
- C. Lower inherent risk resulting from simplified reporting requirements, as reduced disclosure volume decreases the likelihood of misinterpretation and limits the complexity of audit procedures.
- D. Automatic classification of environmental credits as significant risks due to heightened regulatory attention and the growing prominence of climate-related accounting items.

39. Upon a client's adoption of the new environmental credit accounting guidance, which auditor response is most appropriate?

- A. Continue applying prior audit procedures on the grounds that the environmental credits were previously disclosed and therefore do not represent a new source of audit risk.
- B. Treat environmental credits as non-financial information and exclude them from substantive audit testing because they originate from sustainability-related activities.
- C. Place primary reliance on management representations regarding valuation and impairment, given the absence of detailed disclosure requirements.
- D. Reassess audit risk and adjust substantive procedures to respond to new recognition, measurement, and impairment considerations associated with environmental credits.