

1. Select the best answer for each of the following items and write down the answer sheet in numerical order. Your grade will be based on the total number for correct answers. (20%)

(1) Which of the following to indicate the relationship between a component of the risk model and detection risk is correct:

	<u>Inherent risk</u>	<u>Control risk</u>	<u>Audit risk</u>
a.	Direct	Inverse	Inverse
b.	Inverse	Inverse	Direct
c.	Direct	Direct	Inverse
d.	Inverse	Direct	Inverse

(2) Which of the following controls most likely would help ensure that all credit sales transactions of an entity are recorded?

- The billing department supervisor sends copies of approved sales orders to the credit department for comparison to authorized credit limits and correct customer account balances.
- The accounting department supervisor independently reconciles the accounts receivable subsidiary ledger to the accounts receivable control account monthly.
- The accounting department supervisor controls the mailing of monthly statements to customers and investigates any differences reported by customers.
- The billing department supervisor matches prenumbered shipping documents with entries in the sales journal.

(3) Which of the following types of evidence would an auditor most likely examine to determine whether internal control structure policies and procedures are operating as designed?

- Confirmations of receivables verifying account balances.
- Letters of representations corroborating inventory pricing.
- Attorneys' responses to the auditor's inquiries.
- Client records documenting use of EDP programs.

(4) In planning a statistical sample for a test controls, an auditor increased the expected population deviation rate from the prior year's rate because of the results of the prior year's tests of controls and the overall control environment. The auditor most likely would then increase the planned

- Tolerable rate.
- Allowance for sampling risk.
- Risk of assessing control risk too low.
- Sample size.

(5) Which of the following types of audit evidence is the least persuasive?

- Prenumbered purchase order forms.
- Bank statements obtained from the client.
- Test counts of inventory performed by the auditor.
- Correspondence from the client's attorney about litigation.

(6) The following explanatory paragraph was included in an auditor's report to indicate a lack of consistency:

" As discussed in note T to the financial statements, the company changed its method of computing depreciation in 1990."

How should the auditor report on this matter if the auditor concurred with the change?

	<u>Type of opinion</u>	<u>Location of explanatory paragraph</u>
a.	Unqualified	Before opinion paragraph
b.	Unqualified	After opinion paragraph
c.	Qualified	Before opinion paragraph
d.	Qualified	After opinion paragraph

(7) In which of the following situations would a principal auditor least likely make reference to another auditor who audited a subsidiary of the entity?

- The other auditor was retained by the principal auditor and the work was performed under the principal auditor's guidance and control.
- The principal auditor finds it impracticable to review the other auditor's work or otherwise be satisfied as to the other auditor's work.
- The financial statements audited by the other auditor are material to the consolidated financial statements covered by the principal auditor's opinion.
- The principal auditor is unable to be satisfied as to the independence and professional reputation of the other auditor.

(8) The objective of a review of interim financial information of the public entity is to provide the accountant with a basis for

- Determining whether the prospective financial information is based on reasonable assumptions.
- Expressing a limited opinion that the financial information is presented in conformity with generally accepted accounting principles.
- Deciding whether to perform substantive audit procedures prior to the balance sheet date.
- Reporting whether material modifications should be made for such information to conform with generally accepted accounting principles.

(9) Baker, CPA, was engaged to review the financial statements of Hall Company, a nonpublic entity. Evidence came to Baker's attention that indicated substantial doubt as to Hall's ability to continue as a going concern. The principal conditions and events that caused the substantial doubt have been fully disclosed in the notes to Hall's financial statements. Which of the following statements best describes Baker's reporting responsibility concerning this matter?

- Baker is not required to modify the accountant's review report.
- Baker is not permitted to modify the accountant's review report.
- Baker should issue an accountant's compilation report instead of a review report.
- Baker should express a qualified opinion in the accountant's review report.

(10) When there has been a change in accounting principle that materially affects the comparability of the comparative financial statements presented and auditor concurs with the change, the auditor should

	Concur explicitly <u>with the change</u>	Issue an "expect for" <u>qualified opinion</u>	Refer to the change in an <u>explanatory paragraph</u>
a.	No	No	Yes
b.	Yes	No	Yes
c.	Yes	Yes	No
d.	No	Yes	No

2. An auditor is required to obtain a sufficient understanding of each of the elements of an entity's internal control structure and assess control risk. Assessing control risk is performed on the basis of internal control objectives. During the phase of tests of details (substantive tests), the planned tests must be sufficient to satisfy each of audit objectives.

Required: 15%

- a. Please identify the differences between internal control objectives and audit objectives.
 - b. Please explain the differences of the impacts on auditing between deviations found during the phase of assessing control risk and those found during the phase of tests of details (substantive tests).
 - c. Explain the reasons why an auditor may assess control risk at the maximum level for one or more assertions embodied in an account balance. In addition , please explain the impacts on tests of details (substantive tests) when control risk is maximum.
 - d. What is required for an auditor to assess control risk at below the maximum level.
3. Analytical procedures are very important for all audits and always performed at every phase of auditing. For most cases, however, additional evidence beyond analytical procedures is also necessary to satisfy the requirement for sufficient competent evidence.

Required: 15%

- (a) What are the purposes of analytical procedures during the phase of substantive tests.
- (b) List one required analytical procedure and one substantive test procedure we think those are most suitable in order to uncover the following errors:
 - (1) Improper cut off of goods shipment (sales).
 - (2) Understatement of Allowance for bad debts.
 - (3) Slow-moving inventory.
 - (4) Invalid sales including in financial statements.
 - (5) Interest expenses understatement.