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# Question 1

**Question Type:** MultipleChoice

Which of the following is a documentation requirement that an auditor should follow when auditing in accordance with Government Auditing Standards?

## Options:

**A-** The auditor should obtain written representations from management acknowledging responsibility for correcting instances of fraud, abuse, and waste.

**B-** Audit documentation should contain sufficient information so that supplementary oral Explanation: s are not required.

**C-** The auditor should document the procedures that assure discovery of all illegal acts and contingent liabilities resulting from noncompliance.

**D-** Audit documentation should contain a caveat that all instances of material errors and fraud may not be identified.

## Answer:

B

## Explanation:

Choice 'b' is correct. Per Government Auditing Standards, audit documentation should contain sufficient information so that supplementary oral Explanation: s are not required.

Choice 'a' is incorrect. The auditor should obtain written representation from management acknowledging responsibility for 'violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.'

Choice 'c' is incorrect. The auditor should document procedures performed to evaluate compliance with laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Choice 'd' is incorrect. There is no such requirement that audit documentation contain this caveat.

# Question 2

**Question Type: MultipleChoice**

Because of the pervasive effects of laws and regulations on the financial statements of governmental units, an auditor should obtain written management representations acknowledging that management has:

## Options:

**A-** Identified and disclosed all laws and regulations that have a direct and material effect on its financial statements.

**B-** Implemented internal controls designed to detect all illegal acts.

**C-** Expressed both positive and negative assurance to the auditor that the entity complied with all laws and regulations.

**D-** Employed internal auditors who can report their findings, opinions, and conclusions objectively without fear of political repercussion.

### Answer:

A

### Explanation:

Choice 'a' is correct. The auditor should obtain written representation that management has disclosed all laws and regulations that have a direct and material effect on its financial statements.

Choice 'b' is incorrect. Management need not acknowledge that it has implemented internal control activities to detect all illegal acts.

Choice 'c' is incorrect. Management should state that it is responsible for compliance with all laws and regulations.

Choice 'd' is incorrect. Management need not employ internal auditors.

## Question 3

**Question Type:** **MultipleChoice**

For an entity that does financial statements generally would not refer to:

## Options:

**A-** Significant estimates made by management.

**B-** An assessment of the entity's accounting principles.

**C-** Management's responsibility for the financial statements.

**D-** The entity's internal control.

## Answer:

D

## Explanation:

Choice 'd' is correct. The auditor's standard report does not refer to the entity's internal control.

Choice 'a' is incorrect. The auditor's standard report refers to 'significant estimates made by management' in the scope paragraph.

Choice 'b' is incorrect. The auditor's standard report refers to 'assessments of the entity's accounting principles' in the scope paragraph.

Choice 'c' is incorrect. The auditor's standard report states management's responsibility for the financial statements in the introductory paragraph.

# Question 4

**Question Type:** **MultipleChoice**

An auditor was engaged to conduct a performance audit of a governmental entity in accordance with Government Auditing Standards. These standards do not require, as part of this auditor's report:

## Options:

**A-** A statement of the audit objectives and a description of the audit scope.

**B-** Indications or instances of illegal acts that could result in criminal prosecution discovered during the audit.

**C-** The pertinent views of the entity's responsible officials concerning the auditor's findings.

**D-** A concurrent opinion on the financial statements taken as a whole.

## Answer:

D

### Explanation:

Choice 'd' is correct. A concurrent opinion on the financial statements taken as a whole is not a required part of the auditor's report.

Choice 'a' is incorrect. A statement of the audit objectives and a description of the audit scope are required parts of the auditor's report.

Choice 'b' is incorrect. The auditor would provide indications of illegal acts discovered during the audit.

Choice 'c' is incorrect. The pertinent views of the entity's responsible officials concerning the auditor's findings are generally part of the auditor's report.

# Question 5

**Question Type: MultipleChoice**

In reporting on compliance with laws and regulations during a financial statement audit in accordance with Government Auditing Standards, an auditor should include in the auditor's report:

### Options:

**A-** A statement of assurance that all controls over fraud and illegal acts were tested.

**B-** Material instances of fraud and illegal acts that were discovered.

**C-** The materiality criteria used by the auditor in considering whether instances of noncompliance were significant.

**D-** An opinion on whether compliance with laws and regulations affected the entity's goals and objectives.

## Answer:

B

## Explanation:

Choice 'b' is correct. Only material instances of fraud and illegal acts discovered need to be communicated in the auditor's report on compliance. If applicable, the report should state that other instances of noncompliance were communicated to management in a separate letter.

Choice 'a' is incorrect. The report would state that consideration of internal control over compliance would not necessarily disclose all significant deficiencies (reportable conditions). Not only would there be no assurance that all controls were tested, the auditor would assert the exact opposite.

Choice 'c' is incorrect. The auditor would not disclose the materiality criteria used in considering whether instances of noncompliance were significant.

Choice 'd' is incorrect. The auditor does not express an opinion on whether the compliance affected the entity's goals and objectives.

# Question 6

**Question Type:** **MultipleChoice**

An auditor most likely would be responsible for communicating significant deficiencies in the design of internal control:

## Options:

**A-** To the Securities and Exchange Commission when the client is a publicly-held entity.

**B-** To specific legislative and regulatory bodies when reporting under Government Auditing Standards.

**C-** To a court-appointed creditors' committee when the client is operating under Chapter 11 of the Federal Bankruptcy Code.

**D-** To shareholders with significant influence (more than 20% equity ownership) when the significant deficiencies (reportable conditions) are deemed to be material weaknesses.

## Answer:

B

## Explanation:

Choice 'b' is correct. When reporting under Government Auditing Standards, the auditor should consider whether any noted deficiencies in such internal controls should be reported to specific legislative and regulatory bodies.

Choice 'a' is incorrect. The auditor would report significant deficiencies to the audit committee. The auditor is prohibited from disclosing confidential client information to the SEC by the Code of Professional Conduct.

Choice 'c' is incorrect. When there is no audit committee, the auditor would report significant deficiencies in the design of the client's internal control to an otherwise formally designated committee with oversight over the financial reporting process, not necessarily to a court-appointed creditors' committee.

Choice 'd' is incorrect. The auditor would report significant deficiencies to the audit committee. The auditor is prohibited from disclosing confidential client information to significant shareholders by the Code of Professional Conduct.