

Auditing and assurance services chapter 2 solutions assignment



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CHAPTER 2 Professional Standards LEARNING OBJECTIVES | | | | |

Exercises, Problems, and | | | Review Checkpoints | Simulations | | | 1 | 45 | |

1.

Name the various practice standards for internal, governmental, | | | and independent auditors and auditing firms, and identify their | | | sources. | | | | 2, 3, 4, 5, 6, 7 | 39, 40, 41, 43, 44, 48, 51 | | 2.

Explain the 10 AICPA generally accepted auditing standards | | | (GAAS), and explain how GAAS was or was not followed in specific | | | fact situations. | | | | 8, 9, 10 | 50 | | 3.

Explain audit evidence in terms of its appropriateness and | | | relative strength of persuasiveness. | | | | 11, 12, 13, 14, 15 | 42, 46 | | 4. Describe the standard unqualified audit report in terms of its | | | communication of audit standards and other messages. | | | 16, 17 | 47 | | 5. List the reasons for having general attestation and assurance | | | standards and explain how attestation standards differ from | | | generally accepted auditing standards. | | | 18, 19, 20 | 49 | | 6. List and explain the important features of quality control | | | standards for a CPA firm. | | | SOLUTIONS FOR REVIEW

CHECKPOINTS | | | | 2. Practice Standards | | Who issues them | |

Statements on Auditing Standards (SASs) (Private Companies) | | AICPA

Auditing Standards Board | | Auditing Standards (Public Companies) | | Public

Company Accounting Oversight Board (PCAOB) | | Code of Professional

Conduct | | AICPA Professional Ethics Division | | Quality Control Standards | |

AICPA Division for Firms | | Statements on Internal Audit Standards (“ the Red

Book”) | | Institute of Internal Auditors | | Government audit standards (“ the

Yellow Book”) | | Government Accountability Office (GAO) | | International Standards on Auditing and Assurance | | International Federation of Accountants (IFAC) International | | | Auditing and Assurance Standards Board (IAASB) | | Professional Standards and Practices for Certified Fraud | Association of Certified Fraud Examiners (ACFE) | | Examiners | | | 2.

2“Procedures” relate to acts to be performed. “ Standards” deal with measures of the quality of performance of those acts and the objectives to be attained by the use of procedures. The standards are less subject to change. The standards provide the criteria for rejecting, accepting, or modifying a procedure in a given circumstance. An example of the relative stability of standards and procedures is found in the change from non-computerized information systems to computerized systems.

New procedures were required to audit computerized information systems, but auditing standards remained unchanged and were the criteria for determining the adequacy of the new procedures. The word “ procedure” is used in SAS 46 (AU 390) — “ Consideration of Omitted Procedures After the Report Date”-to refer to (1) an act to be performed and (2) sufficient appropriate evidence. SAS 46 speaks of omitted procedures and the relative seriousness of their omission. The importance of any “ omitted procedure,” however, is the evidence the auditors failed to obtain. Merely omitting technical procedures is only a superficial analysis of an audit problem; the substance is the evidence not obtained. 2. 3The standard for due audit care is the care that would be exercised by the prudent auditor.

The prudent auditor is one who exercises reasonable judgment, who is not expected to be omniscient, who is presumed to have knowledge special to <https://assignbuster.com/auditing-and-assurance-services-chapter-2-solutions-assignment/>

his profession, who is expected to be aware of his or her own ignorance, who is expected to possess the skills of the profession whether a beginner or a veteran. 2. 4 Three specific aspects of on-the-job independence 1.

Programming independence 2. Investigative independence 3. Reporting independence 2. 5 Three elements of planning and supervision considered essential in audit practice are: • A written audit program. • An understanding of the client's (auditee's) business. • CPA firm procedures to allow an audit team member to document disagreements with accounting or auditing conclusions and disassociate himself or herself from the matter. 2. The

timing of the auditor's appointment matters because the auditor needs time to plan the audit properly and perform the work without undue pressure from

too-short deadlines. 2. 7 An auditor obtains an understanding of a client, including its internal control, as a part of the control risk assessment process primarily in order to plan the nature, timing and extent of subsequent

substantive audit procedures. A secondary purpose (not covered in Chapter 2) is to obtain information about significant internal control deficiencies to report to the client. 2. 8 Evidence is defined as " all of the information used

by the auditor in arriving at the conclusions on which the audit opinion is based. " 2. External documentary evidence is audit evidence obtained from

the other party to an arm's-length transaction or from outside independent agencies. External evidence reaches the auditor directly and does not pass through the hands of the client. External-internal documentary evidence is documentary material that originates outside the bounds of the client's data processing system but which has been received and processed by the client.

Internal documentary evidence consists of documentary material that is produced, circulates, and is finally stored within the client's information
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system. Such evidence is not touched by outside parties at all or is several steps removed from third-party attention. 2. 0Evidence obtained from related parties is potentially biased, and the information may be self-serving and misleading. 2. 11FASB, FASAB, and GASB statements are the highest level of authoritative support for GAAP. Textbooks, handbooks, and journal articles are the lowest level. 2. 12Yes. The unqualified opinion sentence in the audit report implies, among other things, that the accounting principles used by the company are appropriate in the circumstances. 2. 13Two messages are usually implicit in a standard audit report by their absence: (1) disclosures are adequate, and (2) the accounting principles have been consistently applied. 2. 14Four types of opinions and their messages: Type | | Message | | Unqualified opinion | | Financial statements are presented in conformity with GAAP. | | Adverse opinion | | Financial statements are not presented in conformity with GAAP. | | Qualified opinion | | Financial statements are presented in conformity with GAAP, except for one or more | | | | departures. | | Disclaimer of opinion | | Auditor's declaration that no opinion is given. | 2. 15Investors, creditors and other users tend to assume that financial statements are audited and " everything is OK" whenever they know a public accountant has been involved in producing the statements.

If an audit has not been performed, accountants need to make the fact known so users will not mislead themselves. If an audit has been performed, accountants must report their work and conclusions for users' benefit. 2.

16The purpose served by the attestation standards is to guide attestation work in areas other than audits of financial statements. 2. 17The major differences between attestation standards and generally accepted auditing

standards lie in the areas of practitioner competence, internal control, and reporting. Some other differences are minor ones. GAAS presume knowledge of accounting and require training and proficiency as an auditor (meaning an auditor of financial statements).

The attestation standards are more general, requiring training and proficiency in the “ attest function” and knowledge of the “ subject matter of the assertions. ” The attestation standards have no requirement regarding an understanding of an entity’s internal control. Considerations of internal control are implicit in the task of obtaining sufficient evidence. Anyway, some kinds of attested information may not have an underlying information control system in the same sense as a financial accounting and reporting system. Reporting is different because attestations on nonfinancial information do not depend upon generally accepted accounting principles.

The attestation standards speak of “ evaluation against reasonable criteria,” and “ conformity with established or stated criteria” and leave the door open for attestations on a wide variety of informational assertions. 2. 18While GAAS relate to the conduct of each audit engagement, quality control standards govern the quality of a CPA firm’s accounting audit practice as a whole. Quality Control Standard No. 2 gives five elements of quality control for a CPA firm. When a peer review or quality review is conducted, the reviewers “ audit” the CPA firm’s statement of policies and procedures designed to ensure compliance with the five elements. These statements vary in length and complexity, depending upon the size of the CPA firm. 2.

9This is an example of a policy statement related to engagement

performance as it relates to consultation for assistance with difficult
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accounting and auditing problems. 2. 20 In addition to the standard setting role previously discussed, one of the primary roles of the Public Company Accounting Oversight Board (PCAOB) is to monitor firms engaged in the practice of auditing public companies. The Board's goal is to ensure that audit quality is not compromised and that auditor performance continues to meet public expectations. Soon after it began operations in early 2003, the PCAOB began registering professional services firms providing auditing services to public entities. Firms not registered are not allowed to conduct audits of public companies.

Other Board monitoring activities include inspections of registered auditing firms (similar to peer reviews), special investigations, and disciplinary proceedings. SOLUTIONS FOR MULTIPLE-CHOICE QUESTIONS 2. 21a.

Incorrect Due professional care is a general, not reporting, standard. b.

Correct This standard is a reporting standard. c. Incorrect Sufficiency of evidence is a standard of fieldwork. d. Incorrect The report should state that GAAP has been followed in the preparation of the entity's financial

statements. 2. 22a. Incorrect This practice relates to CPA competence and training, not due professional care. b. Incorrect This practice is a reporting standard. c.

Incorrect Sufficiency of evidence is a standard of fieldwork, not due professional care. d. Correct These practices are a part of due professional care. 2. 23a. Incorrect GAAS relates to the conduct of an audit engagement

by CPAs. b. Correct Quality Control Standards are firm- (rather than CPA-) related. c. Incorrect GAAP relates to accounting, rather than auditing

practices. d. Incorrect International auditing standards govern the conduct of
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audits conducted across international borders. 2. 24a. Incorrect They may lack training and supervision, but d. is a better answer. b. Incorrect They may lack planning and supervision, but d. is a better answer. c. Incorrect The auditors had enough investigative independence to know the problem. d.

Correct The auditors let some feelings for the client override their obligations to the users of the financial statements. 2. 25a. Correct According to the second GAAS standard of fieldwork. b. Incorrect Consulting suggestions are secondary objectives in an audit. c. Incorrect Control information is, at best, indirect evidence about assertions in the financial statements. d.

Incorrect Control information provides little opportunity to learn about accounting principles changes. 2. 26a. Incorrect External evidence is quite reliable. b. Correct Representations from management should least affect auditors' conclusions. c. Incorrect Auditor-prepared evidence is highest on the scale of appropriateness. d.

Incorrect Although a representation of a client employee, inquiry of the company's legal counsel is considered more reliable than that of company management. 2. 27a. Incorrect Inquiry of management should least affect auditors' conclusions. b. Incorrect Although very persuasive, an auditor's personal knowledge (answer d) provides the most persuasive evidence c. Incorrect Observation of a client's procedures provides evidence on the effectiveness of the client's internal control, but not the existence assertion for newly acquired computer equipment. e. Correct An auditor's personal knowledge provides the most persuasive evidence. 2. 28a.

Incorrect Considered last on the scale of appropriateness. b.

Incorrect Considered fourth on the scale of appropriateness. c.

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Incorrect Auditor personal knowledge is usually ranked first, but the procedures were being performed on client internal documents. d.

Correct Considered second (behind auditor's personal knowledge) on the scale of relative appropriateness, but best of the alternative. 2. 29c. Correct Initials of the preparer and reviewer provide evidence of due professional care and planning and supervision. 2. 30a. Incorrect Adequate knowledge is required. b. Correct Understanding of internal control is not required (because it may not always be relevant to the subject). c. Incorrect Sufficient evidence is required. d. Incorrect Independence is required. 2. 31a. Incorrect EITF positions are in the third level of authoritative support. b.

Incorrect AICPA industry guides are in the second level. c. Correct FASB statements on standards are in the first level. d. Incorrect FASB statements on concepts are in the fourth level. 2. 32a. Incorrect Considered fourth on the scale of appropriateness. b. Incorrect Considered last on the scale of appropriateness. c. Incorrect Considered second on the scale of appropriateness. d. Correct Considered first on the scale of relative appropriateness. 2. 33a. Incorrect Understanding a client's internal control does not directly determine auditor's training and proficiency. b.

Incorrect Understanding a client's internal control does not directly determine auditors' independence. c.

Incorrect Understanding a client's internal control does not directly help satisfy the quality control standard about audit staff professional development. d. Correct The primary purpose of obtaining an understanding of a client's internal control is to plan the nature, timing, and extent of subsequent substantive audit procedures on an engagement. 2. 34b.
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Correct Given the choices presented, the EITF position is ranked highest on the GAAP hierarchy (see Exhibit 2. 3). 2. 35b. Correct Governmental auditing standards are issued by the Government Accountability Office (GAO).

Government accounting standards are issued by the GASB. 2. 36a.

Correct Consultation with a specialist demonstrates due professional care if the CPA does not have expertise in the area in question. b.

Incorrect CPAs are experts in financial matters, not areas of art (and other collectibles) valuation. c. Incorrect GAAS applies to all audit engagements. 2.

37a. Incorrect Due professional care has not been followed in this case. b.

Correct The consistency standard relates to the consistent presentation of financial information, not the consistent presentation of the audit report. c.

Incorrect In this case, disclosures have not been adequate. d.

Incorrect Footnotes are considered an integral part of the financial statements. Failure to include an important footnote would be considered a departure from generally accepted accounting principles. 2. 38a.

Correct Attestation standards differ from auditing standards in that they apply to engagements beyond the audited financial statements. b.

Incorrect Attestation standards require that the practitioner be independent. c. Incorrect Attestation standards do apply to prospective "what if" financial statements. d. Incorrect Attestation standards include fieldwork standards.

SOLUTIONS FOR EXERCISES AND PROBLEMS 2. 39 Audit Engagement

Independence a. CPAs should not follow clients' suggestions about the conduct of an audit unless the suggestions clearly do not conflict with his professional competence, judgment, honesty, independence, or ethical standards.

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Where there is no disagreement about the results to be accomplished and the client's suggestion represents a good idea a CPA can accept it. Within professional bounds, mutual agreement with the client is all right. The CPA must never agree to any arrangement that violates generally accepted auditing standards or the Code of Professional Conduct. b. The reasons against dividing the assignment of audit work solely according to assets, liabilities and income and expenses include the following: 1. Work should be assigned to staff members by considering the degree of difficulty in relation to the technical competence and experience of individual staff members. 2.

Sequence of work performed on an examination should be in accordance with an overall audit plan. 3. It is impossible to segregate work areas by major captions because often a close relationship exists among a number of accounts in more than one category, as for example where income is based on assets or expense is based on liabilities. 4. Often a single audit work paper is desirable to substantiate balances in accounts of various types, such as an insurance analysis supporting premium disbursements, the expense portion and the prepaid balance. 5. Duplication of staff effort would be more likely to occur if assignments were made on such a basis. 6.

Frequently, the scope of work regarding a single account requires simultaneous participation by the staff, such as in the observation of inventories. Many audit operations are not susceptible to division by category, as for example investigating internal control, testing transactions and writing the report. c. The CPA's staff member whose uncle owns the advertising agency should not be assigned to examine the client's

advertising account. The CPA firm is responsible for avoiding relationships
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which might suggest a conflict of interest. Regardless of whether this staff member could be independent and unbiased in such a situation, outsiders probably will be influenced in their thinking by the fact that the uncle is the owner of the advertising agency.

Even if a problem of ethics were not involved, it would be unwise for the CPA to assign this staff member because the client's attitude could change significantly and the CPA firm's position would be jeopardized if difficulties later arose in connection with the contract. Any situation in which bias exists or might arise should be avoided.

2. 40Fieldwork Standards The three generally accepted standards of fieldwork and their relation to the illustration are as follows:

1. The first standard is that the auditor must adequately plan the work and must properly supervise any assistants. Fulfilling this standard would include the preparation of an audit program for the accounts receivable and reviewing it with the assistant prior to beginning the examination. These things were not done.

Also, the completed audit documentation should have been reviewed to determine whether an adequate examination was performed. The illustration states that this procedure was followed.

2. The second standard is that the auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. The case presented makes no mention of any work on the internal control.

Reliance entirely upon prior year audit documentation in lieu of an

evaluation of the existing internal control is improper because changes may have been made in the system. 3.

The third standard is that the auditor must obtain sufficient appropriate audit evidence through audit procedures performed to afford a reasonable basis for an opinion regarding the financial statements under audit. The assistant's preparation of audit documentation, confirmation requests and other procedures seem to fulfill the requirements of this standard if the audit work is properly performed and is of sufficient depth. 2. 41Time of Appointment and Planning From a theoretical viewpoint (and, if fact, from a practical viewpoint as well) such short notice of a request for an audit causes difficulties with planning the audit work, with staffing, and with reviewing the work—all of these features being elements of the exercise of due audit care. The December 26-January 20 period is a serious time constraint for a first audit.

The greatest difficulties involve the third general standard (due audit care) and the three field standards. In view of the short notice and the time constraint, there may be some question as to whether a sufficient first audit could be completed by January 20. 2. 42Reporting Standards You must determine whether an unqualified opinion satisfies the GAAS reporting standards, in particular: a. Determine whether the financial statements are presented in conformity with GAAP. 1. Read the footnote description of accounting policies. 2. Use a GAAP checklist. 3. Review the audit documentation for any indication of accounting policies not described in the footnote or ones apparently not in conformity with GAAP. 4.

Refer to SAS criteria concerning the “ meaning of present fairly” (SAS 69 regarding determinations that: (i)The accounting principles are generally acceptable, having authoritative support. (ii)The accounting principles are appropriate in the circumstances. (iii)The financial statements are informative. (iv)The information is reasonably summarized. (v)Material adjustments have not been waived without good reasons. b. Determine whether any accounting changes have been made and whether accounting principles have been applied consistently. c. Determine whether the footnote disclosures are adequate to inform users of any material information evident in the audit documentation. 2. 43GAAS in a Computer Environment

In an audit of a computer-based system, adequate training and experience must be directly related to EDP. In particular, the auditor should be knowledgeable of what computer systems do, how to test the operations of an EDP system, and how to use EDP-unique documentation. The training and proficiency standard contributes to satisfaction of the independence standard by enabling the auditor to make his or her own decisions and judgments. Otherwise, he or she might tend to subordinate his judgment to other persons, possibly to client personnel. When the auditor lacks training and proficiency, it is virtually impossible to maintain an operational independence over audit decisions.

An independence of mental attitude is futile if actual decisions are subordinated to others. The exercise of due audit care requires a critical review at every level of audit supervision of the work done and the decisions made by auditors. Lacking the requisite skills and lacking independent decisions, the due care expected of an auditor at operational, supervisor, <https://assignbuster.com/auditing-and-assurance-services-chapter-2-solutions-assignment/>

and review levels cannot be delivered. The first fieldwork standard requires adequate planning and supervision of assistants. Training and proficiency in computer systems auditing is necessary to plan access to computerized records, programs, and to obtain machine time for conducting audit procedures.

The planning should provide for an early examination of the computer system so that further procedures involving non-computer control and accounting features may be planned should they depend upon computer control procedures. Training and proficiency are very important for being able to obtain an understanding of a computer system's internal controls. Client personnel will expect audit personnel to be capable of working with a computer system. The third standard of fieldwork requires the auditor to obtain sufficient appropriate audit evidence to provide a basis for an opinion on financial statements. Documentary evidence relating to a computer system includes program flow charts, logic diagrams, and decision tables that are not normally used in non-computer systems.

Since these types of documentation are a part of the evidence, they must be understood by the auditor, and understanding of them comes through training and proficiency in their use. 2. 44Authoritative Support SAS 69 (1992), amended by SAS 91 (1999), specifies the hierarchy of sources of authoritative support. Refer to Exhibit 2. 3 in Chapter 2. 2. 45Sources of Professional Standards: | | | | Description | | Source | | a.

Definition of a financial statement audit | | a. AICPA auditing standards board | | b. Guidance for reporting on internal control | | b. PCAOB | | c. Standards

for the practice of internal auditing | | c. Institute of Internal Auditors | | d. Generally accepted government auditing standards | | d. U. S. Government Accountability Office | | e. Education requirements for becoming a CPA | | e. State board of accountancy | | f.

Contents of the Uniform CPA Examination | | AICPA examinations division | | Requirements for obtaining a reciprocal CPA certificate. | | State board of accountancy | | h. Standards of financial accounting | | h. Financial Accounting Standards Board | | i. Auditing standards for public companies | | i. PCAOB | | j. Interpretations and rulings for the Code of Conduct | | j. AICPA professional ethics executive committee | | k. Standards for involvement with unaudited financial | | k.

AICPA accounting and review services committee | | statements of nonpublic companies | | | | l. Standards for consulting practice in CPA firms | | l. AICPA consulting services executive committee | | m. Statements on auditing standards | | m. AICPA auditing standards board | | n. Statements on responsibilities in tax practice | | n. AICPA federal taxation executive committee | | o. Guidance for lending credibility to nonfinancial information | | o. AICPA auditing standards board (attestation standards) | | p. Statements on responsibilities in personal financial | | p.

AICPA personal financial planning executive committee | | planning practice | | 2. 46 Association with Financial Statements. The consequence of being associated with financial statements is that the fourth GAAS reporting standard is invoked. “ In all cases where an auditor’s name is associated with financial statements, the report should contain a clear-cut indication of the

character of the auditor's examination, if any, and the degree of responsibility he is taking. " a. Associated Issue audit report. b. Not associated Tax returns are an exception. c. Associated Issue disclaimer (public company).

Issue compilation report (nonpublic). d. Not associated CPA is associated with accounting records but not with financial statements. e. Associated Issue a disclaimer (public company). f. Associated Issue a disclaimer report. (Should have requested client not print the CPA's name this way.) g. Not associated Nothing needs to be done so long as client doesn't mention CPA in the interim statement document. 2. 47 Investment Performance Attestation 1, 2. Proficiency in the attest function and knowledge of the subject matter: The CPAs must be persons who know and understand investment statistics, operations of mutual funds, and SEC rules about expenses. 3.

Reasonable criteria: The CPAs must determine whether standards exist for presentation of investment return statistics and expense ratios, or they must be able to assess the reasonableness of management's presentation of criteria. 4. Independence: The CPAs must determine that they have independence in relation to Mystery Capital Management and its officers and directors. 5, 6, 7. Due care, planning and supervision, sufficient evidence: The CPAs must conduct the fieldwork carefully to get the evidence necessary in the circumstances. 3. Reasonable criteria: The CPAs must determine whether the statistics can be said to be related to reasonable criteria acknowledged and understandable by users of the advertisements. 8, 10.

Report: The CPAs' report must identify the performance statistics and expense ratios and relate them to the criteria upon which they are based. 9.

Reservations: If the CPA has any misgivings about misrepresentation of the statistics and ratios management presents, they must be stated in the report. 11. Agreed-upon procedures: The CPAs must determine whether the work has been limited to procedures agreed with the client. If so, the distribution of the report should be noted as limited to the parties who imposed the limitations. 2. 48 Auditing Standards Case Study | | | | 1. The examination must be performed by a person or persons | | 1.

It was inappropriate to hire the two students to conduct | | having adequate technical training and proficiency as an auditor. | | the audit. The examination must be conducted by persons with | | | | proper education and experience in the field of auditing. | | | | Inexperienced persons can assist, if they are supervised. | | 2. In all matters relating to the assignment, an independence in | | 2. To satisfy the second general standard, the CPA-auditor | | mental attitude is to be maintained by the auditor or auditors. | | must be without bias with respect to the client under audit. | | | | Because of the financial interest in the bank loan, the | | | | auditor is neither independent in fact nor appearance with | | | | respect to the assignment undertaken. | | | | | | 3. This standard requires performing the audit with due care, | | 3. Due professional care is to be exercised in the performance of | | which imposes on everyone a responsibility to observe the | | the examination and the preparation of the report. | standards of fieldwork and reporting. Exercise of due care | | | | requires critical review at every level of supervision of the | | | | work done and the judgments exercised. The auditor

did not review the work or the judgments of the assistants and clearly failed to adhere to this standard.

2. 48 Auditing Standards Case Study (Continued)

Standards of Fieldwork

1. The auditor must adequately plan the work and must properly supervise any assistants. This standard recognizes that early appointment of the auditor has advantages for the auditor and the client. The auditor accepted the engagement without considering the availability of competent staff. In addition, the auditor failed to supervise the assistants. The work performed was not adequately planned.

2. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.

3. The auditor must obtain sufficient appropriate audit evidence through audit procedures performed to afford a reasonable basis for an opinion regarding the financial statements under audit. Standard audit procedures and techniques were not performed.

Standards of Reporting

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles. Because a proper examination was not conducted,

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the || principles. || report should state no opinion can be expressed as to the fair || || presentation of the financial statements in accordance with || || || generally accepted accounting principles. || 2.

The report shall identify those circumstances in which such || 2. The report makes no reference to the consistent application of || principles have not been consistently observed in the current in || accounting principles. The improper audit would not enable || relation to the preceding period. || auditors to know whether such silence was correct. || 3. Informative disclosures in the financial statements are to be || 3. Without footnotes, the financial statements cannot contain || regarded as reasonably adequate unless otherwise stated in the || adequate disclosure. || report. || || 2. 8 Auditing Standards Case Study (Continued) || || || || 4. The report shall either contain an expression of opinion || 4. Although the report contains an expression of opinion, such an || regarding the financial statements taken as a whole or an || opinion is not based on the results of a proper audit examination. || assertion to the effect that an opinion cannot be expressed. When || The auditor should disclaim an opinion for failure to conduct an || an overall opinion cannot be expressed, the reasons should be || examination in accordance with generally accepted auditing || stated. In all cases where an auditor's name is associated with || standards. || financial statements, the report should contain a clear-cut || || indication of the character of the auditor's examination, if any, || || and the degree of responsibility he or she is taking. || 2. 49Quality Control Standards

Identification of policies and procedures with names of elements of quality

control: a. Personnel management (advancement and performance) b.
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Engagement performance c. Engagement performance (consultation) d.
Personnel management (assignments) e. Personnel management (hiring) f.
Personnel management (professional development) g. Monitoring h.
Independence, integrity and objectivity i. Acceptance and continuance of
clients 2. 50Relative Appropriateness of Evidence a. Audit evidence obtained
from independent sources outside an enterprise provides greater assurance
of reliability (competency) than that which is secured solely within the
enterprise. b.

Accounting data and financial statements developed under satisfactory
conditions of internal control are more reliable (competent) than those which
are developed under unsatisfactory conditions of internal control. c. Direct
personal knowledge obtained by the independent auditor through physical
examination, observation, computation, and inspection is more persuasive
than information obtained indirectly. 2. 51Kaplan CPA Exam Simulation:
Generally Accepted Auditing Standards. To: Kelly, CPA From: Engagement
Partner, CPA Planning The auditor must adequately plan the work and must
properly supervise any assistants. An audit program must be developed prior
to substantive testing to ensure that adequate planning has occurred.

Also, all evidence is to be recorded within the audit documentation, and then
the documentation is reviewed by qualified personnel (i. e. , partner in
charge of the engagement) to ensure proper supervision. Internal Control
The auditor must obtain sufficient appropriate audit evidence through audit
procedures performed to afford a reasonable basis for an opinion regarding
the financial statements under audit. The auditor needs to make an

assessment of control risk. If control risk is assessed as high, the auditor will
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need to gather more evidence than anticipated or gather better quality evidence. The opposite would be true if control risk is assessed as low.