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# Question 1

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**Question Type:** MultipleChoice

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Which of the following best describes an auditor's responsibility with respect to communicating internal control deficiencies of issuers?

## Options:

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- A-** The auditor is required to communicate all deficiencies in internal control to management, deficiencies that constitute a significant deficiency to the audit committee, and deficiencies that constitute a material weakness to the full board of directors.
- B-** The auditor is required to communicate all deficiencies in internal control to management, and deficiencies that constitute a significant deficiency or a material weakness to management and the audit committee.
- C-** The auditor is not required to communicate control deficiencies to management or the audit committee unless they constitute a significant deficiency or a material weakness.
- D-** The auditor is not required to communicate control deficiencies or significant deficiencies to management or the audit committee, but must communicate material weaknesses to both management and the audit committee.

## Answer:

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B

## Explanation:

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Choice 'b' is correct. The auditor is required to communicate all deficiencies in internal control to management, and deficiencies that constitute a significant deficiency or a material weakness to management and the audit committee.

Choice 'a' is incorrect. There is no requirement that material weaknesses be communicated to the full board of directors.

Choice 'c' is incorrect. The auditor is required to communicate all deficiencies in internal control to management.

Choice 'd' is incorrect. The auditor is also required to communicate significant deficiencies to management and the audit committee.

## Question 2

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**Question Type:** MultipleChoice

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For a nonissuer, a previously communicated significant deficiency that has not been corrected, ordinarily should be communicated again:

### Options:

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- A-** Only if the deficiency has a material effect on the auditor's assessment of control risk.
- B-** Unless the entity accepts that degree of risk because of cost-benefit considerations.
- C-** Only if the deficiency is considered a material weakness.

**D-** In writing, during the current audit.

**Answer:**

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D

**Explanation:**

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Choice 'd' is correct. A previously communicated significant deficiency that has not been corrected ordinarily should be communicated again in writing, during the current audit.

Choices 'a' and 'c' are incorrect. The auditor is required to communicate significant deficiencies each year, regardless of whether the deficiency has a material effect on the auditor's assessment of control risk or the deficiency is considered a material weakness.

Choice 'b' is incorrect. The auditor is required to communicate significant deficiencies each year, even if the entity accepts that degree of risk because of cost-benefit considerations.

## Question 3

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**Question Type:** MultipleChoice

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Which of the following statements describes an auditor's obligation to identify deficiencies in the design or operation of internal control?

### Options:

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- A-** The auditor should design and apply tests of controls to discover significant deficiencies in internal control that could result in material misstatements.
- B-** The auditor need not search for significant deficiencies in internal control unless management requests an attestation that 'no significant deficiencies in internal control were noted in the audit.'
- C-** The auditor should search for significant deficiencies in internal control if the auditor expects that controls are operating effectively (i.e., if the auditor plans to rely on controls).
- D-** The auditor need not search for significant deficiencies in internal control but should document and communicate any such deficiencies that are discovered.

### Answer:

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D

### Explanation:

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Choice 'd' is correct. The auditor need not search for significant deficiencies in internal control, but should document and communicate any such deficiencies that are discovered.

Choice 'a' is incorrect. Tests of controls are designed and applied to evaluate the risk of financial statement misstatement, and to determine the nature, timing, and extent of substantive tests to be performed. They are not designed to discover significant deficiencies

in internal control.

Choice 'b' is incorrect. Searching for significant deficiencies in internal control is not part of an audit, and it would be inappropriate for the auditor to state that no significant deficiencies in internal control were noted (even if management requested such a statement).

Choice 'c' is incorrect. Searching for significant deficiencies in internal control is not part of an audit even if the auditor expects that controls are operating effectively (i.e., expects to rely on controls).

## Question 4

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**Question Type:** MultipleChoice

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Which of the following best describes the responsibility of the auditor to report significant deficiencies and material weaknesses in an attest engagement to examine the effectiveness of a nonissuer's internal control?

### Options:

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- A-** The auditor must communicate both significant deficiencies and material weaknesses.
- B-** The auditor must communicate material weaknesses, but need not disclose significant deficiencies.
- C-** The auditor must communicate significant deficiencies, but need not separately identify material weaknesses.

**D-** Neither significant deficiencies nor material weaknesses are required to be communicated.

**Answer:**

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A

**Explanation:**

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Choice 'a' is correct. In an attest engagement to examine the effectiveness of an entity's internal control, the auditor must communicate both significant deficiencies and material weaknesses to management and those charged with governance.

Choice 'b' is incorrect. The auditor is required to communicate significant deficiencies.

Choices 'c' and 'd' are incorrect. Both significant deficiencies and material weaknesses are required to be communicated to management and those charged with governance.

## Question 5

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**Question Type:** MultipleChoice

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Which of the following best describes the responsibility of the auditor with respect to significant deficiencies and material weaknesses in an audit of an issuer?

Must be Communicated to Management  
and the Audit Committee

- A. Both significant deficiencies and material weaknesses
- B. Both significant deficiencies and material weaknesses
- C. Material weaknesses but not significant deficiencies
- D. Material weaknesses but not significant deficiencies

Results in an Adverse Opinion on the  
Effectiveness of Internal Control

- Both significant deficiencies and material weaknesses
- Material weaknesses but not significant deficiencies
- Both significant deficiencies and material weaknesses
- Material weaknesses but not significant deficiencies

**Options:**

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- A- Option A
- B- Option B
- C- Option C
- D- Option D

**Answer:**

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B

**Explanation:**

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Choice 'b' is correct. In an audit of an issuer, the auditor is required to communicate both significant deficiencies and material weaknesses to management and the audit committee, but only material weaknesses result in an adverse opinion on the effectiveness of internal control.

Choice 'a' is incorrect. In an audit of an issuer, significant deficiencies (that do not rise to the level of being material weaknesses) do not result in an adverse opinion on the effectiveness of internal control.

Choice 'c' is incorrect. In an audit of an issuer, both significant deficiencies and material weaknesses must be communicated, in writing, to management and the audit committee. In addition, significant deficiencies (that do not rise to the level of being material weaknesses) do not result in an adverse opinion on the effectiveness of internal control.

Choice 'd' is incorrect. In an audit of an issuer, the auditor is required to communicate both significant deficiencies and material weaknesses to management and the audit committee.

## Question 6

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**Question Type:** MultipleChoice

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Which of the following best describes the responsibility of the auditor to report significant deficiencies and material weaknesses in an audit of a nonissuer?

### Options:

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- A-** The auditor must communicate both significant deficiencies and material weaknesses.
- B-** The auditor must communicate material weaknesses, but need not disclose significant deficiencies.
- C-** The auditor must communicate significant deficiencies, but need not separately identify material weaknesses.
- D-** Neither significant deficiencies nor material weaknesses are required to be communicated.

### Answer:

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A

### Explanation:

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Choice 'a' is correct. In an audit of a nonissuer, the auditor is required to communicate both significant deficiencies and material weaknesses to management and those charged with governance.

Choice 'b' is incorrect. The auditor is required to communicate significant deficiencies.

Choice 'c' is incorrect. The auditor's report includes the definition of significant deficiencies and a list of such deficiencies noted, followed by the definition of material weaknesses and a list of such weaknesses noted.

Choice 'd' is incorrect. Both significant deficiencies and material weaknesses are required to be communicated to management and those charged with governance.

## Question 7

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**Question Type:** MultipleChoice

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In an audit of an issuer, the auditor must provide an opinion on which of the following?

- i. The financial statements.
- ii. The audit committee's oversight of financial reporting and internal control.
- iii. The effectiveness of internal control.

**Options:**

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**A-** I and III only.

**B-** I, II, and III.

**C-** I and II only.

**D-** I only.

**Answer:**

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A

### **Explanation:**

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Choice 'a' is correct. The auditor provides an opinion on the entity's financial statements and on the effectiveness of internal control. The auditor is not required to provide an opinion on the audit committee's oversight (but is required to report to the board when such oversight is ineffective).

Choices 'b', 'c', and 'd' are incorrect, based on the Explanation: above.

## **Question 8**

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### **Question Type: MultipleChoice**

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In an audit of an issuer:

- i. Management must assess and report on internal control.
- ii. The auditor must assess and report on internal control.

### **Options:**

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**A-** I only.

- B-** II only.
- C-** Either I or II.
- D-** Both I and II.

**Answer:**

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D

**Explanation:**

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Choice 'd' is correct. It is management's responsibility to assess and report on internal control, but the auditor is also required to assess and report on internal control.

Choices 'a', 'b', and 'c' are incorrect, based on the Explanation: above.

## Question 9

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**Question Type:** MultipleChoice

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For a nonissuer, a control deficiency would be considered a material weakness when the likelihood and magnitude of potential financial statement misstatements are:

	<u>Likelihood</u>	<u>Magnitude</u>
A.	More than remote	Material
B.	Probable	Material
C.	More than remote	More than inconsequential
D.	Probable	More than inconsequential

### Options:

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A- Option A

B- Option B

C- Option C

D- Option D

### Answer:

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A

### Explanation:

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Choice 'a' is correct. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected.

Choices 'b', 'c', and 'd' are incorrect, based on the Explanation: above.

## Question 10

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Question Type: MultipleChoice

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For a nonissuer, a control deficiency would be considered a significant deficiency when the likelihood and magnitude of potential financial statement misstatements are:

- |    | <u>Likelihood</u> | <u>Magnitude</u>          |
|----|-------------------|---------------------------|
| A. | More than remote  | Material                  |
| B. | Probable          | Material                  |
| C. | More than remote  | More than inconsequential |
| D. | Probable          | More than inconsequential |

Options:

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- A- Option A
- B- Option B
- C- Option C
- D- Option D

Answer:

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C

**Explanation:**

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Choice 'c' is correct. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Choices 'a', 'b', and 'd' are incorrect, based on the Explanation: above.



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