

AUD Practice Questions

Olivia Anderson · True North Accounting & Business Solutions · Study notes for educational use. Always confirm details against the current AICPA Blueprints and authoritative standards.

Twenty-five exam-style multiple-choice questions covering all four AUD content areas, with explanations. Give yourself about 1.5 minutes per question and check the answer key at the end.

Area I: Ethics, Professional Responsibilities and General Principles

Question 1 · Medium

Under the AICPA Code of Professional Conduct, which of the following would **not** impair a member's independence for an attest engagement?

- A. The member holds a direct financial interest in the client.
- B. The member serves on the client's board of directors.
- C. The firm prepared the client's income tax return last year, and management accepted responsibility for the return.
- D. The member makes management decisions for the client.

Answer: C. Tax preparation is a permitted nonattest service when management takes responsibility for the results. Direct financial interests, board service and management decisions all impair independence.

Question 2 · Hard

A CPA firm owns 3% of an audit client's common stock. The client's employee benefit plan owns 8%. Which statement best describes the firm's independence?

- A. Impaired, because combined ownership exceeds 10%
- B. Not impaired, because neither party owns more than 10%
- C. Impaired, because of the firm's direct financial interest
- D. Not impaired, if the shares were acquired before the engagement

Answer: C. A direct financial interest held by the firm impairs independence regardless of materiality. The client's own benefit plan holding is irrelevant to the firm's independence.

Question 3 · Easy

Which of the following is one of the eight components of a firm's system of quality management under SQMS No. 1?

- A. Professional skepticism
- B. Resources
- C. Materiality
- D. Audit sampling

Answer: B. The components are governance and leadership, the firm's risk assessment process, relevant ethical requirements, acceptance and continuance, engagement performance, resources, information and communication, and the monitoring and remediation process. Skepticism, materiality and sampling are engagement-level concepts.

Question 4 · Medium

How must an auditor communicate significant deficiencies and material weaknesses identified in an audit?

- A. In writing, but only for material weaknesses
- B. In writing, but only for significant deficiencies
- C. In writing, for both significant deficiencies and material weaknesses
- D. Only if management requests it

Answer: C. AU-C 265 requires written communication of both to management and those charged with governance, no later than 60 days after the report release date.

Question 5 · Medium

Under Government Auditing Standards (the Yellow Book), auditors performing engagements must complete:

- A. 120 hours of CPE every three years
- B. 24 hours of CPE every two years
- C. 80 hours of CPE every two years, including at least 24 hours directly related to government auditing or the government environment
- D. 40 hours of CPE every year, all in governmental accounting

Answer: C. The Yellow Book requires 80 hours every two years, at least 24 of them directly related to the government environment and government auditing, with at least 20 hours completed in each year.

Area II: Assessing Risk and Developing a Planned Response

Question 6 · Medium

Which procedure would an auditor most likely perform to **test controls** over cash disbursements?

- A. Count cash on hand
- B. Observe whether the check signer reviews supporting documentation before signing
- C. Confirm cash balances with the bank
- D. Trace cash receipts to deposits

Answer: B. Observing a control being performed is a test of controls. A and C are substantive tests of balances, and D relates to cash receipts, not disbursements.

Question 7 · Hard

An auditor suspects employees are ordering merchandise for themselves online without recording the purchase or receipt. When invoices arrive, one of the employees approves them for payment. Which procedure would be most effective in detecting this fraud?

- A. Tracing receiving reports to the purchases journal
- B. Reviewing the open purchase order file for long-outstanding items
- C. Selecting a sample of cash disbursements and examining the supporting invoices and receiving reports
- D. Selecting a sample of receiving reports and tracing them to vendor invoices

Answer: C. The purchases and receipts were never recorded, so there are no receiving reports or purchase orders to start from. The payment is the one thing that does get recorded. Starting with disbursements and looking for support reveals payments without receiving reports.

Question 8 · Easy

Which of the following is **not** one of the five components of internal control in the COSO framework?

- A. Control environment
- B. Control activities
- C. Monitoring activities
- D. Substantive procedures

Answer: D. The five components are the control environment, risk assessment, control activities, information and communication, and monitoring activities. Substantive procedures are performed by the auditor.

Question 9 · Medium

In an integrated audit of a public company, the auditor identifies a significant deficiency that is not a material weakness. What should the auditor do?

- A. Issue an adverse opinion on internal control
- B. Issue an unmodified opinion on internal control and communicate the significant deficiency in writing to the audit committee
- C. Issue a qualified opinion on internal control
- D. Nothing, because it isn't a material weakness

Answer: B. Only a material weakness leads to an adverse opinion on internal control over financial reporting. Significant deficiencies must still be communicated in writing to the audit committee.

Question 10 · Hard

In an audit of internal control over financial reporting of a public company, the auditor identifies a material weakness that existed at year-end. Management says it will fix the weakness within 90 days. How should the auditor report?

- A. Unmodified, because management will fix it
- B. Qualified, because it will be fixed soon
- C. Adverse, because a material weakness existed at year-end
- D. Disclaimer, because of a scope limitation

Answer: C. The opinion is as of year-end. A material weakness at that date requires an adverse opinion, and later remediation doesn't change it.

Area III: Performing Further Procedures and Obtaining Evidence

Question 11 · Medium

An auditor confirmed accounts receivable at an interim date. What should the auditor do to extend the conclusion to year-end?

- A. Confirm all receivables again at year-end
- B. Perform substantive procedures, such as analytical procedures and tests of transactions, covering the period from interim to year-end
- C. Increase the acceptable level of detection risk
- D. Decrease sample sizes for year-end procedures

Answer: B. Interim procedures must be combined with further substantive procedures covering the remaining period. Repeating all confirmations defeats the purpose, and C and D move in the wrong direction.

Question 12 · Hard

In a test of controls, the auditor selected 100 purchase orders and found that 5 can't be located. No alternative procedures can be performed. What should the auditor do?

- A. Replace them with other randomly selected purchase orders
- B. Treat the missing purchase orders as deviations
- C. Expand the sample to 105
- D. Reduce the sample to 95

Answer: B. If the auditor can't perform the planned procedure or a suitable alternative on a selected item, it is treated as a deviation. Replacing the items would understate the deviation rate.

Question 13 · Easy

Which of the following generally provides the most reliable audit evidence?

- A. Inquiry of management about obsolete inventory
- B. Inspection of title documents held by the client
- C. Confirmation of cash balances received directly from the client's bank
- D. Comparing this year's ratios with last year's

Answer: C. Evidence obtained directly by the auditor from an independent outside source is more reliable than documents held by the client, inquiry or analytical comparisons.

Question 14 · Medium

An auditor's test of transactions found errors in the extensions and footings on sales invoices. Which assertion is most affected?

- A. Existence
- B. Completeness
- C. Accuracy
- D. Rights and obligations

Answer: C. Extensions (price times quantity) and footings (column totals) determine whether amounts are recorded correctly, which is the accuracy assertion.

Question 15 · Hard

The auditor was not present for the physical inventory count, the client has no perpetual records and no alternative procedures are possible. Inventory is material but not pervasive. Which opinion should be issued?

- A. Unmodified
- B. Qualified, because of a scope limitation
- C. Disclaimer
- D. Adverse

Answer: B. An inability to obtain sufficient appropriate evidence that is material but not pervasive results in a qualified opinion. A disclaimer is for pervasive effects, and an adverse opinion is for misstatements.

Question 16 · Medium

Which procedure would an auditor most likely perform in a search for unrecorded liabilities?

- A. Vouch a sample of recorded payables to vendor invoices
- B. Examine cash disbursements made after year-end
- C. Confirm balances with every vendor used during the year
- D. Trace receiving reports issued after year-end to the purchases journal

Answer: B. Payments made shortly after year-end often settle obligations that existed at year-end. If those obligations weren't recorded, this test finds them. Vouching recorded payables tests existence, not completeness.

Area IV: Forming Conclusions and Reporting

Question 17 · Easy

Where does the opinion appear in an unmodified auditor's report under AU-C 700?

- A. In the Basis for Opinion section
- B. In the Opinion section, which comes first
- C. In the Auditor's Responsibilities section
- D. In the Responsibilities of Management section

Answer: B. The Opinion section is the first section of the report, followed by the Basis for Opinion.

Question 18 · Medium

The financial statements contain a material but not pervasive departure from GAAP that the client refuses to correct. Which opinion should be issued?

- A. Unmodified with an emphasis-of-matter paragraph
- B. Qualified
- C. Adverse
- D. Disclaimer

Answer: B. A material misstatement that isn't pervasive results in a qualified opinion. A pervasive one results in an adverse opinion. Disclaimers relate to an inability to obtain evidence.

Question 19 · Hard

A nonissuer engages a new auditor after year-end. The auditor can't observe the beginning inventory or apply alternative procedures to it, but can audit ending inventory. Inventory is material. Which opinion is appropriate?

- A. Unmodified on all statements
- B. Qualified on the balance sheet only
- C. Qualified on the income statement and cash flows, and unmodified on the balance sheet
- D. Disclaimer on all statements

Answer: C. Beginning inventory affects cost of goods sold and therefore income and cash flows, but not the ending balance sheet, which the auditor could audit.

Question 20 · Medium

Which of the following **requires** an emphasis-of-matter paragraph in an auditor's report?

- A. A material subsequent event that is properly disclosed
- B. A justified change in accounting principle that has a material effect
- C. Substantial doubt about going concern that is adequately disclosed
- D. Significant related party transactions

Answer: B. AU-C 708 requires an emphasis-of-matter paragraph for a justified change in accounting principle with a material effect. Substantial doubt gets its own separate going concern section. A and D are optional emphasis items.

Question 21 · Hard

The prior year was audited by a predecessor auditor who issued an unmodified opinion, and the predecessor's report is not reissued. How should the successor auditor's report address the prior year?

- A. Don't mention it
- B. Include an other-matter paragraph stating the prior year was audited by another auditor
- C. Reissue the predecessor's report
- D. Qualify the opinion because of a scope limitation

Answer: B. The other-matter paragraph states that the prior year was audited by another auditor, the date of that report and the type of opinion, with the reasons if it was modified.

Question 22 · Medium

Which statement about a review engagement under SSARS is correct?

- A.** The accountant obtains reasonable assurance and expresses an opinion.
- B.** Independence is not required.
- C.** Procedures consist primarily of inquiry and analytical procedures.
- D.** The accountant must test internal controls.

Answer: C. A review provides limited assurance based primarily on inquiry and analytical procedures. Independence is required, and tests of controls are not.

Question 23 · Easy

Which of the following is required in a compilation engagement?

- A.** Independence
- B.** An understanding of internal control
- C.** Knowledge of the financial reporting framework and accounting practices of the industry
- D.** Tests of controls

Answer: C. The accountant must understand the framework and the industry and read the statements for obvious misstatements. Independence isn't required, though a lack of independence must be disclosed. No assurance is provided.

Question 24 · Medium

In a SOC 1 Type 2 engagement, where does the service auditor describe deviations found in tests of controls?

- A.** Only in a separate letter to management
- B.** In the description of tests of controls and results
- C.** In the service organization's system description
- D.** Deviations are not reported if the opinion is unmodified

Answer: B. A Type 2 report includes the service auditor's description of tests of controls and results, including any deviations. If controls weren't operating effectively enough to achieve the control objectives, the opinion is also modified.

Question 25 · Medium

Management's written representations should be dated:

- A. As of the date of the auditor's report
- B. As of the balance sheet date
- C. As of the last day of fieldwork
- D. As of the date the statements are issued

Answer: A. Representations are dated as of the date of the auditor's report so they cover events through the end of the audit. If management refuses to provide them, the auditor generally disclaims an opinion or withdraws.

Answer Key

1. C	2. C	3. B	4. C	5. C
6. B	7. C	8. D	9. B	10. C
11. B	12. B	13. C	14. C	15. B
16. B	17. B	18. B	19. C	20. B
21. B	22. C	23. C	24. B	25. A

Scoring: 23–25 correct, you're ready. 20–22, review the ones you missed. 17–19, spend more time on your weak areas. Below 17, work back through the AUD study guide first.