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**AICPA**

# CPA-AUD

*Auditing and Attestation (AUD)*

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**QUESTION: 369**

An auditor's communication of internal control related matters noted in an audit usually should be addressed to:

- A. Management and those charged with governance.
- B. The director of internal auditing.
- C. The chief financial officer.
- D. The chief accounting officer.

**Answer: A**

**Explanation:**

Choice "a" is correct. An auditor's communication of internal control related matters noted in an audit usually should be addressed to management and those charged with governance. Choices "b", "c", and "d" are incorrect. The director of internal auditing, the chief financial officer, and the chief accounting officer all would have access to the letter; however, it would not be addressed to them since they do not have the same level of authority and responsibility to the shareholders as management and those charged with governance.

**QUESTION: 370**

When reporting on conditions relating to an entity's internal control observed during an audit of the financial statements of a nonissuer, the auditor should include a:

- A. Description of tests performed to search for material weaknesses.
- B. Statement of positive assurance on internal control.
- C. Paragraph describing the inherent limitations of internal control.
- D. Restriction on the use of the report.

**Answer: D**

**Explanation:**

Choice "d" is correct. When reporting on conditions relating to an entity's internal control observed during an audit of the financial statements, the auditor should include a restriction on the use of the report. Choice "a" is incorrect. The auditor would not include a description of tests performed to search for material weaknesses since the auditor is not in fact obligated to search for them. Choices "b" and "c" are incorrect. An auditor would make a statement of positive assurance on internal control and include a

paragraph describing the inherent limitations of internal control in conjunction with an engagement to report on internal control. These comments would not be made when reporting on an entity's internal control in conjunction with an audit of the financial statements of a nonissuer.

**QUESTION: 371**

An engagement to express an opinion on the internal control of a nonissuer will generally:

- A. Require procedures that duplicate those already applied in assessing control risk during a financial statement audit.
- B. Increase the reliability of the financial statements that have already been audited.
- C. Be more extensive in scope than the assessment of control risk made during a financial statement audit.
- D. Be more limited in scope than the assessment of control risk made during a financial statement audit.

**Answer: C**

**Explanation:**

Choice "c" is correct. An engagement to express an opinion on internal control will generally be more extensive in scope than the assessment of control risk made during a financial statement audit of a nonissuer. This occurs because assessing control risk is the primary purpose of an engagement to express an opinion on internal control, whereas it is an incidental result of an audit of a nonissuer. Choice "a" is incorrect. Since the results of the audit may be considered in performing the engagement to express an opinion on internal control, it is unlikely that the auditor would duplicate those procedures already applied. Choice "b" is incorrect. It is unlikely that the reliability of the financial statements that have already been audited would be increased if an engagement to express an opinion on internal control is performed. Choice "d" is incorrect. An engagement to express an opinion on internal control is more extensive in scope than the control risk assessment performed during an audit of a nonissuer.

**QUESTION: 372**

Which of the following statements is correct concerning significant deficiencies noted in an audit of a nonissuer?

- A. Significant deficiencies are material weaknesses in the design or operation of specific internal control components.
- B. The auditor is obligated to search for significant deficiencies that could adversely affect the entity's ability to record and report financial data.

- C. Significant deficiencies should not be re-communicated each year if management has acknowledged its understanding of such deficiencies.
- D. The auditor should separately identify those significant deficiencies that are considered to be material weaknesses.

**Answer:** D

**Explanation:**

Choice "d" is correct. The auditor should separately identify those significant deficiencies that are considered to be material weaknesses.

Choice "a" is incorrect. Not all significant deficiencies are material weaknesses.

Choice "b" is incorrect. The auditor is not obligated to search for significant deficiencies. The auditor is obligated to communicate to the client any significant deficiencies identified while auditing the financial statements.

Choice "c" is incorrect. The auditor is obligated to re-communicate significant deficiencies each year, even if management has acknowledged its understanding of such deficiencies.

**QUESTION:** 373

Which of the following statements concerning an auditor's communication of significant deficiencies identified during the audit of a nonissuer is correct?

- A. The auditor should request a meeting with management one level above the source of the significant deficiencies to discuss suggestions for remedial action.
- B. Any report issued on significant deficiencies should indicate that providing assurance on internal control was not the purpose of the audit.
- C. Significant deficiencies discovered and communicated at an interim date should be reexamined with tests of controls before completing the engagement.
- D. Suggestions concerning administration efficiencies and business strategies should not be communicated in the same report with significant deficiencies.

**Answer:** B

**Explanation:**

Choice "b" is correct. Any report issued on significant deficiencies should indicate that providing assurance on internal control was not the purpose of the audit. Choice "a" is incorrect. The auditor should communicate significant deficiencies to management and those charged with governance, but is not required to request a meeting with management one level above the source of the reportable conditions, to discuss suggestions for remedial action.

Choice "c" is incorrect. Significant deficiencies discovered and communicated at an interim date do not need to be reexamined with tests of controls before completing the

engagement.

Choice "d" is incorrect. Suggestions concerning administration efficiencies and business strategies may be communicated in the same report with significant deficiencies (the significant deficiencies must be separately identified, however).

**QUESTION:** 374

Which of the following representations should not be included in a report on internal control related matters noted in an audit of a nonissuer?

- A. Significant deficiencies related to internal control design exist, but none is deemed to be a material weakness.
- B. There are no significant deficiencies in the design or operation of internal control.
- C. Corrective follow-up action is recommended due to the relative significance of material weaknesses discovered during the audit.
- D. The auditor's consideration of internal control would not necessarily disclose all significant deficiencies that exist.

**Answer:** B

**Explanation:**

Choice "b" is correct. A report on internal control related matters noted in an audit should not state that there are no significant deficiencies in internal control, since this statement might erroneously imply that the auditor searched for such conditions. Choice "a" is incorrect. The auditor is permitted to state that no material weaknesses were identified during the audit. Typically this occurs in reports submitted to governmental authorities. Choice "c" is incorrect. The auditor may suggest that corrective follow-up action should be taken due to the relative significance of material weakness discovered. Choice "d" is incorrect. The auditor's report may state that his or her consideration of internal control would not necessarily disclose all significant deficiencies that exist.

**QUESTION:** 375

In obtaining an understanding of an entity's internal control in a financial statement audit, an auditor is not obligated to:

- A. Determine whether the control activities have been implemented.
- B. Perform procedures to understand the design of internal control.
- C. Document the understanding of the entity's internal control components.
- D. Search for significant deficiencies in the operation of internal control.

**Answer:** D

**Explanation:**

Choice "d" is correct. When obtaining an understanding of an entity's internal control in a financial statement audit, an auditor is not obligated to search for significant deficiencies in the operation of internal control. Choice "a" is incorrect. In order to determine the nature, timing and extent of tests to be performed, an auditor must determine whether the control activities have been implemented. Choice "b" is incorrect. An auditor is required to perform procedures to confirm his/her understanding of the internal control systems' design, and to determine whether relevant controls have been implemented. Choice "c" is incorrect. An auditor is required to document his or her understanding of the entity's internal control components, even if he or she intends to use a substantive approach.

**QUESTION:** 376

The GAO standards of reporting for governmental financial audits incorporate the AICPA standards of reporting and prescribe supplemental standards to satisfy the unique needs of governmental audits. Which of the following is a supplemental reporting standard for governmental financial audits?

- A. Auditors should report the scope of their testing of compliance with laws and regulations and of internal controls.
- B. Material indications of illegal acts should be reported in a document distributed only to the entity's senior officials.
- C. All changes in the audit program from the prior year should be reported to the entity's audit committee.
- D. Any privileged or confidential information discovered should be reported to the organization that arranged for the audit.

**Answer:** A

**Explanation:**

Choice "a" is correct. The auditor's report on compliance and on internal control over financial recording (based on an audit) must include the scope of testing of compliance and internal control. Choice "b" is incorrect. Material indications of illegal acts are not only reported to the members of the governing body of the audited entity and their senior staff officials but, in some circumstances, auditors should report illegal acts directly to external parties (such as the grantor agency).

Choice "c" is incorrect. Although GAO standards require that the auditor communicate information regarding the nature, timing and extent of planned testing to officials of the audited entity and to individuals contracting for the audit, reporting of all changes is not required. (For example, immaterial changes to the audit program need not be reported.) Choice "d" is incorrect. Certain privileged or confidential information may be prohibited

from general disclosure and should not be included in the audit report. The report should, however, disclose the nature of the information omitted and the requirement that makes an opinion necessary.

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