

CPA REVIEW SCHOOL OF THE PHILIPPINES

Manila

AUDITING THEORY

OTHER SERVICES AND REPORTS

Related PSAs: PSA 910, 920, 930, 800, 810

PSA 910 – Engagements to Review Financial Statements

1. The objective of a review of financial statements is
 - a. To enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with generally accepted accounting principles in the Philippines.
 - b. For the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.
 - c. For the accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarize financial information.
 - d. To enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with generally accepted accounting principles in the Philippines (negative assurance).
2. Which statement is incorrect regarding the general principles of a review engagement?
 - a. The auditor is not required to comply with the "Code of Professional Ethics for Certified Public Accountants" promulgated by the Board of Accountancy.
 - b. The auditor should conduct a review in accordance with PSA 910.
 - c. The auditor should plan and perform the review with an attitude of professional skepticism recognizing that circumstances may exist which cause the financial statements to be materially misstated.
 - d. For the purpose of expressing negative assurance in the review report, the auditor should obtain sufficient appropriate evidence primarily through inquiry and analytical procedures to be able to draw conclusions.
3. Which of the following is required to be performed in an audit but not in review engagement?
 - a. Complying with the "Code of Professional Ethics for Certified Public Accountants" promulgated by the Board of Accountancy.
 - b. Planning the engagement.
 - c. Agreeing on the terms of engagement.
 - d. Studying and evaluating internal control structure.
4. Engagement letter for a review of financial statements least likely includes
 - a. The objective of the service being performed.
 - b. The fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist.
 - c. A statement that an audit is not being performed and that an audit opinion will not be expressed.
 - d. The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatement may remain undiscovered.
5. Which statement is incorrect regarding procedures and evidence obtained in a review engagement?
 - a. The auditor should apply judgment in determining the specific nature, timing and extent of review procedures.
 - b. The auditor should apply the same materiality considerations as would be applied if an audit opinion on the financial statements were being given.
 - c. There is a greater risk that misstatements will not be detected in an audit than in a review.
 - d. The judgment as to what is material is made by reference to the information on which the auditor is reporting and the needs of those relying on that information, not to the level of assurance provided.

6. Which of the following procedures is not included in a review engagement on a nonpublic entity?
 - a. Inquiries of management.
 - b. Inquiries regarding events subsequent to the balance sheet date.
 - c. Any procedures designed to identify relationships among data that appear to be unusual.
 - d. **Communicating any material weaknesses discovered during the study and evaluation of internal accounting control.**
7. In a review engagement, the independent accountant's procedures include:
 - a. Examining bank reconciliation.
 - b. Confirming accounts receivable with debtors.
 - c. **Reading the financial statements to consider whether they appear to conform with GAAP.**
 - d. Obtaining a letter of audit inquiry from all attorneys of record.
8. An auditor's standard report on a review of the financial statements of a nonpublic entity should state that
 - a. The auditor does not express an opinion or any form of limited assurance on the financial statements
 - b. **Nothing has come to the auditor's attention based on the review that causes the auditor to believe the financial statements are not presented fairly, in all material respects in accordance with generally accepted accounting principles in the Philippines.**
 - c. The auditor obtained reasonable assurance about whether the financial statements are free of material misstatement
 - d. The auditor examined evidence, on a test basis, supporting the amounts and disclosures in the financial statements
9. Which of the following is not a basic element of a review report?
 - a. Title of the report
 - b. **Client's address**
 - c. Introductory paragraph
 - d. Auditor's address
10. The scope paragraph of the review report least likely includes
 - a. A reference to Philippine Standard on Auditing applicable to review engagements.
 - b. A statement that a review is limited primarily to inquiries and analytical procedures.
 - c. A statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit and that an audit opinion is not expressed.
 - d. **A statement of the responsibility of the entity's management and the responsibility of the auditor.**
11. If matters have come to the auditor's attention, the auditor should describe those matters that impair a fair presentation, in all material respects in accordance with GAAP in the Philippines, including, unless impracticable, a quantification of the possible effect(s) on the financial statements, and
 - a. Express a qualification of the negative assurance provided.
 - b. When the effect of the matter is so material and pervasive to the financial statements that the auditor concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial statements, give an adverse statement.
 - c. Not provide any assurance.
 - d. **Either a or b.**
12. A review report should be dated as of the
 - a. Date the report is delivered to the entity reviewed.
 - b. **Date the review is completed.**
 - c. Balance sheet date of the latest period reported on.
 - d. Date a letter of audit inquiry is received from the entity's attorney of record.
13. The statement that *"nothing came to our attention which would indicate that these statements are not fairly presented"* expresses which if the following?
 - a. Disclaimer of opinion
 - b. Negative confirmation
 - c. **Negative assurance**
 - d. Piecemeal opinion

PSA 920 – Engagements on Agreed-Upon Procedures

14. Which statement is incorrect regarding agreed-upon procedures?
- a. Users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work.
 - b. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.
 - c. The auditor should conduct an agreed-upon procedures engagement in accordance with PSA 920 and the terms of the engagement.
 - d. Where the auditor is not independent, a statement to that effect need not be made in the report of factual findings.
15. Which of the following would not be appropriate to a report on an engagement to apply agreed-upon procedures to specified financial statement items?
- a. Indicate the intended distribution of the report.
 - b. Provide an opinion on the specified elements, accounts, or items.
 - c. Enumerate the procedures performed.
 - d. State that the report relates only to the elements, accounts, or items specified.
16. The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed. The report of factual findings should not contain:
- a. Addressee (ordinarily the client who engaged the auditor to perform the agreed-upon procedures).
 - b. Identification of the purpose for which the agreed-upon procedures were performed.
 - c. A description of the auditor's factual findings including sufficient details of errors and exceptions found.
 - d. Statement that the procedures performed constitute an audit and, as such, an opinion is expressed.

PSA 930 – Engagements to Compile Financial Information

17. Which statement is incorrect regarding compilation engagement?
- a. This ordinarily entails reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information.
 - b. The procedures employed are designed to enable the accountant to express limited assurance on the financial information.
 - c. Users of the compiled financial information derive some benefit as a result of the accountant's involvement because the service has been performed with professional competence and due care.
 - d. In all circumstances when an accountant's name is associated with financial information compiled by the accountant, the accountant should issue a report.
18. A CPA is not required to comply with the "Code of Professional Ethics for Certified Public Accountants" promulgated by the Board of Accountancy when performing
- a. Review.
 - b. Agreed-upon procedures.
 - c. Compilation.
 - d. None of the above.
19. An accountant who is not independent may issue a
- a. Compilation report
 - b. Review report
 - c. Comfort letter
 - d. Qualified opinion
20. Indicate whether the following procedures performed in an audit engagement are also required when performing related services.
- | | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|---------------------------------------|----------|----------|----------|----------|
| • Agreeing on the terms of engagement | Yes | Yes | Yes | No |
| • Engagement planning | Yes | Yes | Yes | No |
| • Documentation | Yes | Yes | No | No |
| • Issuance of report | Yes | No | No | No |
21. When compiling financial information, the accountant ordinarily is required to
- a. Obtain a general knowledge of the business and operations of the entity.
 - b. Make any inquiries of management to assess the reliability and completeness of the information provided.

- c. Verify any matters.
 - d. Verify any explanations.
22. Which statement is incorrect regarding the procedures performed in a compilation engagement?
- a. If the accountant becomes aware that information supplied by management is incorrect, incomplete, or otherwise unsatisfactory, the accountant should consider performing appropriate procedures and request management to provide additional information.
 - b. The accountant should read the compiled information and consider whether it appears to be appropriate in form and free from obvious material misstatements.
 - c. The generally accepted accounting principles in the Philippines and any known departures therefrom should be disclosed within the financial information, and their effects should be quantified.
 - d. The accountant should obtain an acknowledgment from management of its responsibility for the appropriate presentation of the financial information and of its approval of the financial information.
23. If the accountant becomes aware of material misstatements, the accountant should try to agree appropriate amendments with the entity. If such amendments are not made and the financial information is considered to be misleading, the accountant should
- a. Do nothing.
 - b. Withdraw from the engagement.
 - c. Issue a qualified or adverse opinion.
 - d. Issue a negative assurance.
24. Reports on compilation engagements should contain the following, except:
- a. A statement that the engagement was performed in accordance with the PSA applicable to compilation engagements.
 - b. Identification of the financial information noting that it is based on information provided by management.
 - c. A statement that management is responsible for the financial information compiled by the accountant.
 - d. A statement that the accountant does not express an opinion but expresses only limited assurance on the financial statements.
25. On each page of the financial information or on the front of the complete set of financial statements, the financial information compiled by the accountant should contain a reference such as
- a. "Unaudited"
 - b. "Compiled without Audit or Review"
 - c. "Refer to Compilation Report"
 - d. Any of the above.
26. An accountant's compilation report should be dated as of the date of
- a. Completion of fieldwork.
 - b. Completion of the engagement.
 - c. Transmittal of the compilation report.
 - d. The latest subsequent event referred to in the notes to the financial statements.

PSA 800 – The Auditor's Report on Special Purpose Audit Engagements

27. The following are special purpose audit engagements, except
- a. Financial statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles in the Philippines.
 - b. Specified accounts, elements of accounts, or items in a financial statement.
 - c. Compliance with contractual agreements.
 - d. Compiled financial statements.
28. Which statement is incorrect regarding special purpose audit engagements?
- a. Before undertaking a special purpose audit engagement, the auditor should ensure there is agreement with the client as to the exact nature of the engagement and the form and content of the report to be issued.
 - b. To avoid the possibility of the auditor's report being used for purposes for which it was not intended, the auditor may wish to indicate in the report the purpose for which the report is prepared and any restrictions on its distribution and use.

- c. When requested to report in a prescribed format, the auditor should consider the substance and wording of the prescribed report.
 - d. The auditor need not consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information.
29. A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support. Other comprehensive financial reporting frameworks may include the following, except
- a. A conglomeration of accounting conventions devised to suit individual preference.
 - b. That used by an entity to prepare its income tax return.
 - c. The cash receipts and disbursements basis of accounting.
 - d. The financial reporting provisions of a government regulatory agency.
30. The CPA is asked to audit financial statements prepared on a modified cash basis. This is acceptable provided the CPA
- a. Converts the financial statement to an accrual basis before rendering an audit report.
 - b. Qualifies the audit opinion for a departure from GAAP.
 - c. Issues an adverse opinion.
 - d. States clearly in the audit report that fairness was evaluated within the framework of the other basis rather than GAAP.
31. Which statement is correct regarding report on a component of financial statements?
- a. This type of engagement may be undertaken as a separate engagement or in conjunction with an audit of the entity's financial statements.
 - b. In determining the scope of the engagement, the auditor need not consider those financial statement items that are interrelated and which could materially affect the information on which the audit opinion is to be expressed.
 - c. The auditor's examination will ordinarily be less extensive than if the same component were to be audited in connection with a report on the entire financial statements.
 - d. When an adverse opinion or disclaimer of opinion on the entire financial statements has been expressed, the auditor may report on components of the financial statements even if those components are so extensive as to constitute a major portion of the financial statements.
32. Which statement is incorrect regarding report on compliance with contractual agreements?
- a. The auditor cannot be requested to report on an entity's compliance with certain aspects of contractual agreements, such as bond indentures or loan agreements.
 - b. Engagements to express an opinion as to an entity's compliance with contractual agreements should be undertaken only when the overall aspects of compliance relate to accounting and financial matters within the scope of the auditor's professional competence.
 - c. When there are particular matters forming part of the engagement that are outside the auditor's expertise, the auditor would consider using the work of an expert.
 - d. The report should state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement.
33. Which statement is incorrect regarding report on summarized financial statements?
- a. Unless the auditor has expressed an audit opinion on the financial statements from which the summarized financial statements were derived, the auditor should not report on summarized financial statements.
 - b. Summarized financial statements are presented in considerably less detail than annual audited financial statements.
 - c. Summarized financial statements need to be appropriately titled to identify the audited financial statements from which they have been derived.
 - d. Summarized financial statements contain all the information required by the financial reporting framework used for the annual audited financial statements.
34. The auditor's report on summarized financial statements least likely include
- a. An identification of the audited financial statements from which the summarized financial statements were derived.
 - b. A reference to the date of the audit report on the unabridged financial statements and the type of opinion given in that report.
 - c. An opinion as to whether the information in the summarized financial statements is presented fairly, in all material respects.

- d. A statement which indicates that for a better understanding of an entity's financial performance and position and of the scope of the audit performed, the summarized financial statements should be read in conjunction with the unabridged financial statements and the audit report thereon.

PSA 810 – The Examination of Prospective Financial Information

35. In an engagement to examine prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:
- I. Management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information.
 - II. The prospective financial information is properly prepared on the basis of the assumptions.
 - III. The prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions.
 - IV. The prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.
- a. I, II, III and IV b. I, II and III c. I and II d. I, II and IV
36. Forecast means
- a. Financial information based on assumptions about events that may occur in the future and possible actions by an entity.
 - b. Prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).
 - c. Prospective financial information prepared on the basis of hypothetical assumptions about future events and management actions which are not necessarily expected to take place.
 - d. Prospective financial information prepared on the basis of a mixture of best-estimate and hypothetical assumptions.
37. Prospective financial information can include financial statements or one or more elements of financial statements and may be prepared for distribution to third parties in
- a. A prospectus to provide potential investors with information about future expectations.
 - b. An annual report to provide information to shareholders, regulatory bodies and other interested parties.
 - c. A document for the information of lenders which may include, for example, cash flow forecasts.
 - d. Any of the above.
38. An auditor should not issue a report on
- a. The achievability of forecasts
 - b. Internal control
 - c. Management performance
 - d. Quarterly financial information
39. Which statement is incorrect regarding examination of prospective financial information?
- a. The auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use.
 - b. The auditor and the client should agree on the terms of the engagement.
 - c. The auditor should obtain a sufficient level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified.
 - d. The auditor need not obtain written representations from management regarding the intended use of the prospective financial information, the completeness of significant management assumptions and management's acceptance of its responsibility for the prospective financial information.
40. When the auditor believes that the presentation and disclosure of the prospective financial information is not adequate, the auditor should
- a. Express a qualified or adverse opinion in the report on the prospective financial information.
 - b. Withdraw from the engagement.
 - c. Disclaim the opinion in the report on the prospective financial information.
 - d. Either a or b.