Question 1 of 29

Section 404 of the Sarbanes-Oxley Act of 2002 requires each annual report of an issuer to include which of the following?

A. Representations from the company's external auditors that the company has effective internal control over operations.

B. Management representations that the company's external auditors have examined its internal control over compliance with laws and regulations.

C. Reasonable assurances that fraud will be identified before the issuance of the company's annual report.

D. Management's assessment of the effectiveness of internal control over financial reporting.

Question 2 of 29

Which of the following situations most clearly illustrates a breach of fiduciary duty by one or more members of the board of directors of a corporation?

A. A corporation previously has distributed 50% of its earnings as dividends. This year, it has annual earnings per share of $2, and the board of directors voted 4 to 1 against paying any dividend to finance growth.

B. A director of a corporation negotiated the purchase of a computer system on behalf of the corporation. The director co-owns the computer vendor, which he disclosed to the other board members. The purchase price was competitive, and the board (absent the vendor co-owner) unanimously approved the purchase.

C. A director who has been on the board for five years has not attended a total of three meetings. A key vote was held at one of the missed meetings which resulted in a tie due to his absence.

D. A director learned that the corporation was thinking of buying retail space. The director then purchased a vacant building in the same city that could have been suitable for use by the corporation.

Question 3 of 29

A registered public accounting firm is conducting an audit of an issuer and initiated its current-year audit on January 1, Year 3. Many of the firm's former auditors are now employed by the client. Under which of the following circumstances may the firm perform the audit?

- **A.** The client's CFO was the lead partner on the audit until December 31, Year 1.
- **B.** The client's CEO was a manager on the audit until June 30, Year 2.
- **C.** The client's controller was a staff accountant on the audit for two weeks during Year 2.
- **D.** The client's chief accounting officer was the concurring partner on the audit until April 15, Year 2.

Question 4 of 29

According to the SEC, which of the following best describes a nonaudit service that, when jointly provided with the audit of an issuer, would result in the accountant's loss of independence?

- **A.** Preparing the client's tax returns based on information prepared by management.
- **B.** Providing a comfort letter in regard to the client's meeting the debt covenant requirements.
- **C.** Issuing a report on management's assessment of the client's internal controls.
- **D.** Preparing the client's footnote disclosure of significant accounting policies.

Question 5 of 29

A person identified as an audit committee financial expert of an issuer generally must have acquired the attributes of a financial expert through any of the following experiences, **except**

- **A.** As a principal financial officer, principal accounting officer, controller, public accountant, or auditor.
- **B.** Serving on at least one other issuer's audit committee or disclosure committee of the board of directors.
- **C.** Actively supervising a principal financial officer or principal accounting officer.
- **D.** Assessing the performance of public accountants with respect to preparation, auditing, or evaluation of financial statements.

Question 6 of 29

During an audit of the financial statements of a company, the CFO provides a spreadsheet to the audit team that contains a number of errors that are material to the financial statements. Under what circumstances, would this situation be a violation of the rules of the Sarbanes-Oxley Act of 2002 on improper influence on the conduct of audits?

A. The CFO discovers and corrects most of the errors in the spreadsheet, which was prepared by a staff accountant. One immaterial error remains of which the CFO is aware, and this error remains undetected by the audit team, but the financial statements end up being fairly presented.

B. The audit team discovers the errors through alternate procedures when they discern that the spreadsheet was improperly manipulated by the CFO. This intentional conduct of the CFO does **not** succeed in affecting the audit.

C. The CFO had the spreadsheet prepared by a vendor of the company; the vendor intentionally misstates information in the spreadsheet, and the CFO does **not** discover the misstatements. The errors remain undetected by the audit team, and the financial statements are materially misleading.

D. The CFO was unaware of the errors in the spreadsheet, which was prepared by a staff accountant and reviewed by the CFO. The errors remain undetected by the audit team, and the financial statements are materially misleading.

Question 7 of 29

How many audits of public companies per year does a CPA firm that is registered with the Public Company Accounting Oversight Board (PCAOB) have to perform before it receives an annual inspection from the PCAOB?

A. One audit.

B. More than 10 audits.

C. More than 50 audits.

D. More than 100 audits.

Question 8 of 29

According to the SEC, an auditor is **not** independent of its issuer audit client in which of the following situations?

A. The auditor's cousin has an insurance policy obtained from the issuer before it became an audit client.

B. The auditor has an automobile loan at standard terms from the audit client that is collateralized by the automobile.

C. The auditor has an investment in an entity that has the ability to exercise significant influence over the audit client.

D. The auditor's grandparent was in an accounting role at the audit client and ended employment before the period under audit began.

Question 9 of 29

A cooling-off period of how many years is required before a member of an issuer's audit engagement team may begin working for the registrant in a key position?

A. One year.

B. Two years.

C. Three years.

D. Four years.

Question 10 of 29

Under the Sarbanes-Oxley Act of 2002, exactly how many consecutive years may an audit partner lead an audit for an issuer?

A. Four years.

B. Five years.

C. Six years.

D. Seven years.

Question 11 of 29

According to the PCAOB, which of the following tax services may be provided jointly with the audit of an issuer's financial statements without impairing independence?

A. Planning and issuing an opinion in favor of the tax treatment of an aggressive tax position.

B. Reviewing a proposed transaction and informing the client of the tax consequences.

C. Providing consultations under a contingency fee arrangement.

D. Preparing tax returns for an individual in a financial oversight reporting role during the audit period.

Question 12 of 29

Each of the following statements regarding the Public Company Accounting Oversight Board (PCAOB) is true **except**:

A. Public accounting firms must register with the PCAOB to perform audits of public companies.

B. The PCAOB is a private, nonprofit organization established in 1933.

C. Two of the five PCAOB board members must be CPAs.

D. The PCAOB is responsible for enforcing the Sarbanes-Oxley Act.

Question 13 of 29

An issuer may hire an employee of a registered public accounting firm who served on the audit engagement team within the previous year for which of the following positions?

A. Controller.

B. CFO.

C. CEO.

D. Staff accountant.

Question 14 of 29

At least how often should the PCAOB inspect a registered public accounting firm that regularly issues audit reports to 50 issuers?

A. Annually.

B. Every two years.

C. Every three years.

D. As requested by the firm.

Question 15 of 29

According to the SEC, members of an issuer's audit committee may **not**

A. Establish procedures for employees to anonymously report fraud.

B. Be responsible for the compensation of any registered public accounting firm employed by the entity to provide an audit report.

C. Accept any consulting, advisory, or other compensation fee from the entity for services other than as a member of the board.

D. Engage independent counsel as deemed necessary to carry out their duties.

Question 16 of 29

According to the Sarbanes-Oxley Act of 2002, which of the following nonaudit services is a registered public accounting firm allowed to perform for an audit client when preapproved to do so by the audit committee?

A. Post client-approved journal entries.

B. Appraise an asset belonging to the client.

C. Perform internal audit services.

D. Prepare the client's tax return.

Question 17 of 29

Zoe has served as the audit partner for CPA firm OVB's audit of ABC Corp., an issuer, for each of the past five years. Which of the following is true regarding next year's audit of ABC?

	Zoe may serve as *the audit partner*	*OVB may serve as* *the auditing firm*
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

Question 18 of 29

According to the PCAOB, each of the following statements is true with respect to the auditor's responsibility to communicate material weaknesses in internal control over financial reporting, **except**

A. All such weaknesses must be communicated in writing to the audit committee.

B. All such weaknesses must be communicated in writing to management.

C. All such weaknesses must be communicated prior to the issuance of the auditor's report on internal control over financial reporting.

D. All such weaknesses must be communicated in writing to all stockholders.

Question 19 of 29

An issuer's auditor is prohibited from providing tax services to which of the following individuals?

A. The chair of the board of directors.

B. The chair of the audit committee.

C. The CEO.

D. The CFO of an affiliate of the issuer audited by another firm.

Question 20 of 29

Rules issued under the Sarbanes-Oxley Act of 2002 restrict former members of an audit engagement team from accepting employment as a chief executive, chief financial or chief accounting officer, or controller of an audit client that files reports with the Securities and Exchange Commission. How many annual audit period(s) must be completed before such employment can be accepted?

A. One.

B. Two.

C. Three.

D. Five.

Question 21 of 29

According to the Sarbanes-Oxley Act of 2002, which of the following is a corporate responsibility requirement for public entity issuers?

A. Certifying that no material weaknesses in internal controls over financial reporting exist as of the end of the reporting period.

B. Certifying that financial statements are fairly presented and not materially misleading to the external auditor.

C. Ensuring that the external auditor is hired, compensated, and communicated with directly by management.

D. Ensuring that deficiencies in internal controls have been disclosed by the independent audit committee.

Question 22 of 29

Which of the following statements with respect to the Public Company Accounting Oversight Board rules on independence is correct?

A. Public confidence would usually **not** be impaired by the existence of circumstances that reasonable people might believe likely to influence independence.

B. Auditors should be independent in fact but are **not** obligated to avoid situations that could lead outsiders to doubt their independence.

C. Independence implies the attitude of a prosecutor that recognizes an obligation for fairness to management and other stakeholders.

D. Auditors must be without bias with respect to a client in order to maintain the impartiality necessary for the dependability of audit findings.

Question 23 of 29

Nguyen is the lead audit partner for BCD Accounting Firm's audit team for client Megga Corporation, a large publicly held company. Nguyen has been given a job offer at Megga. Which of the following positions can Nguyen accept and assume immediately without having to worry about violating SOX's independence rules?

A. CFO

B. CEO

C. CMO

D. CAO

Question 24 of 29

As specified in Title I of the Sarbanes-Oxley Act of 2002, which organization has oversight and enforcement authority over the Public Company Accounting Board (PCAOB) and its decisions?

A. The AICPA

B. The SEC

C. The FASB

D. The Treasury Department

Question 25 of 29

Which of the following nonaudit services does the Sarbanes-Oxley Act permit firms providing attest services to perform for attest clients?

A. Tax consulting.

B. Actuarial services.

C. Investment advisory services.

D. Expert services unrelated to the audit.

Question 26 of 29

Which of the following Boards has the responsibility to regulate CPA firms that audit public companies?

A. Auditing Standards Board.

B. Public Oversight Board.

C. Public Company Accounting Oversight Board.

D. Accounting Standards Board.

Question 27 of 29

The Sarbanes-Oxley Act of 2002 prohibits the performance of certain services for audit clients by auditors of public companies. Which of the following is not prohibited?

A. Bookkeeping services.

B. Appraisal services.

C. Tax preparation services.

D. Management functions.

Question 28 of 29

In which of the following circumstances would a covered member's independence be impaired with respect to an "issuer" client under PCAOB auditing standards?

A. The member is designated to serve as guardian of a friend's children if the need arises, and the friend's estate, which would be held in trust for the children, holds significant stock ownership in a client entity.

B. The member's spouse qualifies because of geographical residence to belong to a client's credit union, and all transactions with the credit union are conducted under normal operating practices.

C. The member owns municipal utility bonds issued by a client, and the bonds are **not** material to the member's wealth.

D. The member belongs to a client golf club that requires members to acquire a share of the club's debt securities.

Question 29 of 29

Charlie is an auditor whose firm audits Sitton Corporation, a publicly-held company. Under Sarbanes-Oxley, which of the following are NAS (Non-Audit Services) that Charlie's firm may perform for Sitton without impairing independence?

A. Actuarial services.

B. Tax advice.

C. Internal audit outsourcing services.

D. Broker/dealer services.