Chapter 03_7e

1. Which of the following philosophical principles in ethics places emphasis on the importance of following rules rather than on weighing the consequences of actions?
   A. Kantian principle.
   B. Utilitarian principle.
   C. Consequentialism principle.
   D. Moral principle.

2. Which of the following philosophical principles of ethics places emphasis on the consequences of action, rather than on following the rules?
   A. Imperative principle.
   B. Utilitarianism principle.
   C. Generalization principle.
   D. Moral principle.

3. What is a key characteristic of critical thinking?
   A. It is a means of eliminating alternatives to arrive at one right answer.
   B. It requires making the right assumptions to support an argument.
   C. It requires a questioning mind.
   D. It is a means of picking out things wrong with another person's argument.

4. The goal of the critical-thinking framework reflects ________.
   A. independence
   B. ideal audit virtues
   C. skepticism
   D. ethics

5. What is the meaning of the rule of professional conduct that requires an auditor to be objective?
   A. The auditor may have a material, indirect financial interest in a client's business as long as it does not affect his or her judgment.
   B. The auditor has an obligation to CPA Canada to not use his or her training for personal advantage.
   C. The auditor has an obligation to serve the needs of the audit client.
   D. The auditor must have an attitude of professional skepticism toward an auditee's management.

6. The CPA Ontario Rules of Professional Conduct contain both general ethical principles that are idealistic in character and also a ________.
   A. list of violations that would cause the automatic suspension of a member's license
   B. set of specific, mandatory rules describing minimum levels of conduct required of members
   C. description of the procedures to be followed by a member who must respond to an inquiry from the disciplinary committee
   D. list of specific acts discreditable to the profession

7. Which of the following items is the most important principle in the "fundamental statements of accepted conduct"?
   A. Maintain the reputation of the profession.
   B. Act with due care.
   C. Maintain independence.
   D. Act with professional courtesy.
8. A complaint has been made against a member for an audit failure. If this complaint is found to have merit, under which CPA Ontario Rule of Professional Conduct is the member likely to be charged?
   A. 202 Integrity and due care.
   B. 204 Independence.
   C. 210 Conflict of interest.
   D. 215 Contingent fees.

9. A succinct, but comprehensive definition of independence is that an auditor ________.
   A. must be independent in fact and in appearance in order to maintain credibility
   B. must not have a direct financial interest in a client
   C. must have a license to practice as a public accountant
   D. must not take on as an audit client a company owned by a member of his or her immediate family

10. The familiarity threat refers to ________.
    A. becoming too sympathetic to a client's interests
    B. providing assurance on one's own work
    C. promoting a client's position or opinion
    D. benefiting from a financial interest in a client

11. In the course of performing an audit, an auditor begins dating the CFO of the auditee. What kind of threat to independence might arise?
    A. Self-review threat.
    B. Self-interest threat.
    C. Familiarity threat.
    D. Intimidation threat.

12. A client's management claims that they have to restrict an auditor's access to a research laboratory to protect the safety of the auditor. This could be an example of a lack of ________.
    A. programming independence
    B. investigative independence
    C. control independence
    D. reporting independence

13. According to the profession's rules of conduct, an auditor would be considered independent in which of the following instances?
    A. The auditor is the officially appointed stock transfer agent of a client.
    B. The auditor has a personal chequing account in a branch of a client bank.
    C. The client has not paid its audit fees for the past three years.
    D. The client is the only tenant in a commercial building owned by the auditor.

14. How can competence and due care best be described?
    A. Competence and due care both refer to the PA doing their best for their clients.
    B. Competence refers to technical ability; due care refers to strictly following official pronouncements of accounting principles.
    C. Competence is knowing what do; due care is doing it to the best of one's abilities.
    D. Competence and due care both refer to ongoing technical training.

15. Regarding honorary positions in non-profit organizations, which of the following statements is FALSE?
    A. Professional accountants can be honorary directors of charity hospitals, fund drives, symphony orchestra societies, and other non-profit organizations, as long as the position is purely honorary.
    B. The professional accountant cannot be identified as an honorary director on letterheads and other literature.
    C. The only form of participation is the use of the professional accountant's name.
    D. The professional accountant does not vote with the board or participate in management functions.
16. Which of the following statements regarding independence with respect to accounting and other services is FALSE?
   A. If a professional accountant (PA) performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, the PA cannot be considered independent for assurance services.
   B. If a PA performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, it might be perceived that the PA has both prepared the financial statements or other data and given an audit report or other assurance on his or her own work.
   C. The PA cannot perform the bookkeeping for a company and also provide assurance services.
   D. The PA can counsel the client management about the accounting principle choices, but in the final analysis the management must be able to say, "These are our financial statements (or other data); we made the choices of accounting principles; we take primary responsibility for them."

17. In a study of law cases of accountants' and auditors' legal troubles, the greatest percentage arose from
   A. faulty implementation of audit procedures
   B. client fraud
   C. misinterpretation of accounting principles
   D. fraud by the auditor

18. A private or civil wrong or injury is known as a ________.
   A. breach
   B. tort
   C. misconduct
   D. deceit

19. In common law actions, the burden of proof lies with the ________.
   A. bailiff
   B. defendant
   C. plaintiff
   D. jury

20. The failure to perform a duty with the requisite standard of care is known as ________.
   A. lack of independence
   B. negligence
   C. lack of objectivity
   D. misconduct

21. That a legal duty arises when there is a contractual agreement with the client is called ________.
   A. standard of care
   B. privity of contract
   C. professionalism
   D. independence

22. In addition to liabilities imposed by common law, auditors need also be concerned about what other type of liability?
   A. Statutory law.
   B. Tort law.
   C. Professional liability.
   D. Negligence.

23. If a party is found to be partially liable and thus only responsible for paying part of the damages relative to their share of the blame, this is known as ________.
   A. due care
   B. breaking even
   C. proportionate liability
   D. a tort
24. A letter where accountants sign that they have been notified that a particular recipient of the financial statements and audit report intends to rely upon them for particular purposes is known as a(n)  
   A. management letter  
   B. compliance letter  
   C. reliance letter  
   D. engagement letter  

25. Historically, auditors' liability in Canada has been based on common law liability.  
   True   False  

26. An ethical dilemma is one in which the choice of alternative actions affects the well-being of other persons.  
   True   False  

27. "Let your conscience be your guide" is an ethical principle that fits all situations.  
   True   False  

28. Consequentialism says that the right choice is the one that results in the greatest good for the greatest number of people.  
   True   False  

29. Rules of professional conduct provide some direct solutions to specific, profession-related problems that may not be easily derived from general theories of ethics.  
   True   False  

30. The "Rules of Professional Conduct, " state the set of very specific rules that flow from the general principles and are considered to be minimum standards.  
   True   False  

31. The "Rules of Professional Conduct" for professional accountants apply to services performed by members in both public and private practice.  
   True   False  

32. The fundamental principles of accepted conduct are only general guidelines; therefore, they are not as important as the specific rules.  
   True   False  

33. If a professional accountant is convicted of a criminal offence or fraud, he or she is usually thrown out of the profession.  
   True   False  

34. The codified "Rules of Professional Conduct" derives its authority from the CPA Canada Handbook.  
   True   False  

35. If a public accountant (PA) performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, the PA cannot be considered independent for assurance services.  
   True   False  

36. Once public accountants (PAs) retire from a firm, they are no longer required to maintain independence from former clients.  
   True   False  

37. Many users of audit reports expect auditors to detect fraud, theft, and illegal acts, and to report them publicly.  
   True   False
38. Legal liabilities of professional accountants arise only from lawsuits brought on the basis of the law of contracts.
   True   False

39. The auditor has a duty of care to a company that hires the auditor and has a contract with him or her under privity of contract.
   True   False

40. Auditors need not be concerned about statutory law liability.
   True   False

41. Ethical theories can be divided into two types: monistic and pluralistic. Explain each.

42. What is professional skepticism?

43. It is sometimes said that there is a strong link between codes of conduct and GAAS. Explain.

44. Explain how CPA Ontario enforces the "fundamental statements of accepted conduct" and the "Rules of Professional Conduct."

45. Summarize the professional competence and due care rules of the various codes of conduct.
46. Explain the difference among integrity, independence, and objectivity.

47. Identify five threats to the independence of a professional accountant.

48. Discuss how a public accountant (PA) can preserve independence while accepting an honorary position in non-profit organizations.

49. Discuss the rules relating to the provision of accounting and other services by a public accountant (PA).

50. When a professional accountant is sued, what is the lawsuit typically based on?

51. What is meant by "privity?"
52. What must a plaintiff prove regarding an action brought under common law against a PA?

53. What is joint and several liability?
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29. TRUE
30. TRUE
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32. FALSE
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35. TRUE
36. FALSE
37. TRUE
38. FALSE
39. TRUE
40. FALSE

41. Monistic theories assume that universal principles apply regardless of the specific facts. Pluralistic theories assume that there are no universal principles and that the best approach is to use the principles that are most relevant to a specific case.

42. The auditor’s tendency not to believe management assertions, but instead to find sufficient support for the assertions through appropriate audit evidence. It recognizes that circumstances causing the financial statements to be materially misstated may exist.

43. Codes of conduct can be viewed as a means of fulfilling auditor responsibilities for GAAS and assurance standards.

44. The fundamental statements of accepted conduct are positive principles that represent the image of ideal conduct. As a result, they are not enforceable. Rules of professional conduct are specific rules that delineate minimum acceptable behaviour. The rules are administered and enforced by the provincial institutes through professional conduct committees and disciplinary committees.

Sufficient relevant data: Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed. Planning and supervision: Adequately plan and supervise the performance of professional services. Due professional care: Exercise due professional care in the performance of professional services.

45. Professional competence: Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.

The important distinction when discussing independence, or objectivity, is the difference between fact and appearance. A person may be truly unbiased and free of conflict of interest that is, objective in fact. This quality, however, is a mental attitude that is incapable of measurement or observation. As a result, public accountants must also be independent, or objective, in appearance; that is, any knowledgeable person observing the accountant’s actions should be able to conclude that the accountant is unbiased. Integrity is an overriding principle.

Objectivity: Objectivity is defined by CPA Ontario as being “free of any influence, interest, or relationship which, in respect of the engagement, impairs member’s professional judgement or objectivity or which, in the view of a reasonable observer” would do so. Like independence, the term objectivity implies freedom from bias or conflict of interest.

Independence: Independence is synonymous with objectivity. The term independence implies that that the person exhibiting the quality is free from bias or conflict of interest.

46. Integrity: Integrity is the duty to be honest and conscientious in performing professional services.

5. Intimidation—being deterred from acting objectively by actual or perceived threats from a client.
4. Familiarity—becoming too sympathetic to a client’s interests.
3. Advocacy—promoting a client’s position or opinion.
2. Self-interest—for example, benefiting from a financial interest in a client.
47. 1. Self-review—providing assurance on his or her own work.

48. Ordinarily, independence is impaired if a PA serves on an organization’s board of directors. However, members can be honorary directors of charity hospitals, fund drives, symphony orchestra societies, and other non-profit organizations as long as (1) the position is purely honorary, (2) the PA is identified as an honorary director on letterheads and other literature, (3) the only form of participation is the use of the PA’s name, and (4) the PA does not vote with the board or participate in management functions. When all these criteria are satisfied, the PA/board member can perform assurance services because the appearances of independence will have been preserved.

49. If a PA performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, the PA cannot be considered independent for assurance services. It might be perceived that the PA has both prepared the financial statements or other data and given an audit report or other assurance on his own work. The PA can perform the bookkeeping and counsel the client management about the accounting principle choices, but in the final analysis the management must be able to say, “These are our financial statements (or other data); we made the choices of accounting principles; we take primary responsibility for them.”

50. Legal liabilities of PAs arise from lawsuits brought on the basis of the law of contracts or as tort actions for negligence. Most lawsuits stem from a breach of contract claim that the accounting or auditing services were not performed as agreed.
51. The relationship of direct involvement between parties to a contract is known as privity. When privity exists, a plaintiff usually needs only to show that the defendant accountant was negligent, and showed a lack of reasonable care in the performance of professional accounting tasks.

6) The accountant was negligent, grossly negligent, deceitful, or otherwise responsible for the damage.
5) They were the direct cause of the loss.
4) He or she relied on the statements or advice.
3) The financial statements were materially misleading or the accountant's advice was faulty.
2) There was a beneficiary relationship with the defendant.
52. 1) He or she was damaged or suffered a loss.

53. This is a doctrine that allows a successful plaintiff to recover the full amount of damage award from the defendants who have money or insurance. In other words, any of several defendants who have caused part of the damages are liable to the plaintiffs for the entire amount of damages. The accounting profession would like to replace this doctrine such that defendants pay damages only to the extent that they are at fault.
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