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ACC 435: Module 1: Review Questions Set 2

1. List the various types of auditors and describe their respective in a sentence or two each.

1. External auditors - This is the most common type of auditor that normally conducts the audit once a year. This auditor has no affiliation with the company.
2. Internal auditors - Their role is to collect, analyze and scrutinize all the company records to check if they are complying with all the regulations and managing the risk. They report to a company's board or executives.
3. Government auditors - They audit the financial position of Government agencies and private businesses involved in any activity related to the government. Their main goal is to ensure that the finances are spent and earned according to the stipulated laws and rules.
4. Forensic auditors - Their role is to conduct an audit for legal purposes. They may conduct the audit to impeach a party against crimes such as embezzlement, fraud or any other criminal activity.

2. Briefly discuss the key events that led up to the Sarbanes-Oxley Act of 2002 creation of the PCAOB.

The scandals that took place at Enron, WorldCom, Tyco, and many others caused investors to doubt the fundamental integrity of the financial reporting system.

During the late 1990s and early 2000s, accounting firms aggressively sought opportunities to expand their business in non-audit services such as consulting.

This expansion from their core audit practice, combined with allegations of auditors refusing to challenge management's actions, resulted in conflict between regulators and the accounting profession.

Under pressure to restore the public's confidence, Congress passed the Sarbanes-Oxley Act and created the PCAOB in 2002.

3. The AICPA performs a number of functions that directly bear on independent auditors of nonpublic entities, including promulgation of rules and standards. List four types of rules or standards issued by the AICPA.

1. Statements on Auditing Standards
2. Statements on Standards for Attestation Engagements
3. Statements on Standards for Accounting and Review Services

4. Statements on Quality Control Standards

4. What kind of organization is the PCAOB? Why was it formed, and what does it do?

The PCAOB is a quasi-governmental organization overseen by the SEC. It was formed to provide governmental regulation of the standards used in conducting public company audits because of a perceived failure of the profession to adequately regulate itself. It provides independent audit reports for publicly traded companies

5. What role does the SEC play in the establishment of accounting and auditing standards for public companies?

The SEC has congressional authority from the original Securities Acts of 1933 and 1934 to establish accounting and auditing standards for publicly traded companies. In the past the SEC has largely delegated this authority to other bodies, including the FASB and the AICPA's Auditing Standards Board. The Sarbanes-Oxley Act of 2002 gave the SEC the mandate to actively regulate the public accounting profession by establishing and overseeing the PCAOB and its standard-setting process relating to the audits of public companies. The SEC has authority to implement and oversee standards relating to all aspects of the audits of public companies, including standards relating to auditor independence.

6. List three categories of GAAS.

1. General Standards
2. Standards of Fieldwork
3. Standards of Reporting