Preface

In recent years, tremendous changes have affected the practice of public accounting. These changes have presented the profession with opportunities and challenges. The extraordinary growth of electronic commerce has created expanded opportunities for the profession to broaden its scope of activities by offering new assurance services. At the same time the growth of e-commerce has meant that the traditional forms of documentation that the auditor has long relied upon for audit evidence have been reduced or eliminated. This is combined with the fact that the profession is being challenged by the demands of various groups, especially regulators, to assume more responsibility as part of their role in society. It has been said in the past that auditing is a risk-bearing profession. That statement was never truer than it is today. One way in which the profession has accepted this demand for greater responsibility is by explicitly directing its members to become proactive in the detection of fraudulent financial reporting.

Some of the new assurance services offered by the profession are CA WebTrust℠—providing assurance in electronic commerce, CA SysTrust℠—providing assurance on information system reliability, and ElderCare—providing assurance on health care performance measurement. These types of services build on the auditor’s traditional attributes of competence, objectivity, and independence. Although these new services are likely to be a major source of revenues for public accounting firms, it must be remembered that financial statement audits still represent a major, ongoing source of revenues for public accounting firms, and many of our students will continue to be heavily involved in financial statement audits. Such changes and events represent challenges for auditors; they also offer significant opportunities for auditors to contribute to the effective and efficient flow of information and capital in our society.

The changes impacting the profession require that students thoroughly understand the audit process, broadly defined to include assurance services. We believe that this is best accomplished by having students understand the basic concepts that underlie the audit process and how to apply those concepts to various audit and assurance services. The Canadian edition of Auditing and Assurance Services: A Systematic Approach contains a number of significant features that respond to this changing environment. Chapter 1 contains a more detailed overview of the relationship between assurance, attestation, and auditing services, including the demand for assurance services and how the provision of such services responds to the need for entities to be accountable to different groups in society. Chapter
21 covers assurance and attest engagements, including more detailed coverage of the new assurance services. Chapter 3 presents a broad view of the auditor’s risk assessment process. The chapter includes an introduction to the Strategic Systems Approach to auditing and the concept of key business processes. The book also contains a comprehensive case for a mail-order retailer, EarthWear Clothiers, which is used throughout the book to demonstrate important concepts. There are Internet websites for EarthWear and its auditors. EarthWear’s website has assurance provided through a CA WebTrustSM engagement. Lastly, the book has a new design format, more extensive learning objectives, and Internet assignments.

As the title indicates, the book takes a systematic approach to the audit process by first introducing the three basic concepts that underlie that process: materiality, audit risk, and evidence. These concepts are then applied to each major accounting cycle and related account balances using a risk-based approach. For example, each accounting cycle chapter starts with an overview of the information system followed by a discussion of inherent risk factors that are relevant for the cycle and account balances. The assessment of control risk is then described, followed by discussion of the nature, timing, and extent of audit procedures necessary to obtain sufficient evidence to reach the appropriate level of detection risk.

In covering these important concepts and their applications, the book focuses on the decision-making processes followed by auditors. Much of auditing practice involves the use of auditor judgment. If a student understands these basic concepts and how to apply them on an audit engagement, he or she will know how to practice in today’s dynamic audit environment.

The book can be used in a one-semester introductory auditing or assurance services course, or in a two-course sequence at the undergraduate and graduate levels. It can also be used in introductory professional development courses for external auditors, internal auditors, and government auditors.

Organization

Auditing and Assurance Services: A Systematic Approach is divided into eight parts:

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Part I: Introduction to Auditing and Assurance Services

This part of the textbook introduces assurance services, attest services, and auditing. Chapter 1 reviews the demand for assurance services and the role of assurance services in today's economy; the relationship between assurance, attest services, and auditing; the types of audit engagements and types of auditors; and the public accounting profession, including issues faced by the profession; organizations that impact the profession; and auditing standards. The Appendix to Chapter 1 also describes EarthWear Clothiers, a fictitious company based on a real-world entity. This case is used throughout the text to demonstrate important concepts. EarthWear and its auditors have websites that can be used for various case assignments. Chapter 2 provides a unique overview of financial statement audits. It covers the management assertions contained in financial statements and their relationship to audit objectives, the auditor's responsibility for errors and fraud, and the auditor as a business and industry expert; and it covers the three fundamental concepts that underlie the audit process: materiality, audit risk, and evidence. The chapter also includes a brief overview of sampling, ethics, and independence, and audit reporting.

Part II: Basic Auditing Concepts: Materiality, Risk, and Evidence

Part II provides detailed coverage of the three basic concepts that underlie the audit process. Chapter 3 discusses materiality and audit risk and their role in the auditor's decision-making process. In Chapter 3 the student is introduced to the Strategic Systems Approach to auditing, an approach increasingly being adopted by large firms as a way of managing audit risk and business risk, and providing efficient and effective audits. The audit risk model is also presented in this chapter. Chapter 4 provides detailed coverage of the concepts related to audit evidence, including the various types of evidence used by auditors and the basics of working paper documentation.

Part III: Planning the Audit and Understanding Internal Control

Part III is devoted to audit planning and understanding internal control. Chapter 5 outlines an organized approach to audit planning and describes the different types of audit tests, with detailed coverage of analytical procedures. Chapter 6 covers the auditor's consideration of internal control when planning and performing an audit, including the basic framework for assessing control risk. Chapter 7 extends the coverage of internal control to include the effect of information technology (IT) on the audit and reviews the tools available to the auditor for auditing in an IT environment.

Part IV: Statistical Tools for Auditing

This part of the text presents the application of statistical and non-statistical sampling techniques to auditing. Chapter 8 contains an overview of the types of audit sampling, and the use of attribute sampling as applied to tests of controls. Chapter 9 applies statistical sampling to testing account balances and focuses on the use of monetary-unit sampling. Classical variable sampling techniques and non-statistical sampling for substantive testing are also covered in Chapter 9.
Part V describes the application of internal control concepts and evidence-gathering procedures to various accounting cycles. Chapters 10 to 16 discuss key business processes and inherent risk considerations, the assessment of control risk, and substantive testing for each accounting cycle and its related account balances.

Part VI focuses on the steps followed at the end of the audit and provides expanded coverage of audit reporting. Chapter 17 discusses contingent liabilities, commitments, and subsequent events, and also describes the final evidence evaluation process followed by the auditor. Chapter 18 presents the details of audit reporting and covers a number of special reporting issues, including the various types of audit report reservations.

Part VII is devoted to the auditor’s professional responsibilities. Chapter 19 covers ethics, professional conduct, and quality control standards. Chapter 20 discusses the legal environment that confronts the auditing profession.

Part VIII covers assurance services, including the demand for such services. Chapter 21 begins with the traditional and progresses to the new. It first discusses accounting and review services, two accounting services commonly provided by practitioners to their clients. It then describes a number of attest services, including audit reports on subsets of financial information and on future oriented financial information, and the auditor’s involvement in prospectuses. Chapter 21 finishes with more detailed discussion and examples of the new assurance services introduced in Chapter 1.

Elements of this Textbook

In-Text Features

- At the beginning of each chapter, there is a list of detailed learning objectives, which are referenced throughout the text, to help you understand the concepts of the chapter. [LO 1]
- Right beside the learning objectives, there is a handy list of relevant accounting and auditing pronouncements, tailored for the Canadian audience.

Integrated Cases

This text contains an integrated case company, EarthWear Clothiers, which is introduced in Chapter 1. This case is based on a real-world company and is used to demonstrate important auditing con-
cepts throughout the book. A website for the company contains extensive financial and other information on EarthWear (www.mcgrawhill.ca/college/messier/earthwear), and a website for the company’s auditors (www.mcgrawhill.ca/college/messier/willisandadams), which also contains selected working papers from this year’s audit of EarthWear. There are also numerous problems and Internet assignments related to EarthWear throughout the text, and are highlighted using the EarthWear logo. Besides the EarthWear case, the Calabro Paging Services case is included as a discussion problem in Chapter 3. It is also used in various chapters to demonstrate important concepts with an alternative industry. A number of problems in the book are based on the Calabro case.

End-of Chapter Material

- **Review questions** enable students to quickly test their knowledge of that chapter’s learning objectives.
- **Multiple-choice questions** drawn from professional examinations help students to quickly review and summarize the chapter concepts.
- **Detailed problems** use higher learning skills such as analysis, judgment, and decision making to test students’ abilities when faced with specific facts and scenarios.
- **Discussion cases** expand student learning by providing a detailed audit scenario and requiring an understanding and synthesis of the chapter concepts. Many of the discussion cases were developed from real-world examples and require students to research the answers using various information sources.
- **Internet assignments** return students to the EarthWear Clothiers case, asking them to gather various types of accounting and industry information.

Distinguishing Features of the Canadian Edition

The Canadian edition of Auditing & Assurance Services: A Systematic Approach has a number of important features:

- Care has been taken to ensure that the material reflects the Canadian environment, and current Canadian standards and practice. For example, in the introductory chapter, the student is introduced to the different Canadian professional bodies and to generally accepted auditing standards as set out in the CICA Handbook, the authoritative source of auditing standards in Canada. This perspective is maintained throughout the text.
- The text takes a systematic approach to the audit process by building on the basic concepts of materiality, audit risk, and audit evidence.
- The Strategic Systems Approach to auditing is introduced and follows a risk-based approach, with materiality and audit risk presented in a manner that is consistent with auditing standards and current practice.
• A cycles approach is followed, with the components of the audit risk model addressed in each cycle chapter.

• The discussion of internal control in each accounting cycle assumes some level of computerization. As a result, the effect of computer processing on the audit is introduced immediately after, and as an extension of, the consideration of internal control. The use of IT audit techniques is presented as a part of the discussion of auditing each accounting cycle and account balance.

• An overview of sampling is presented at the beginning of Chapter 8 to give the student a frame of reference for studying statistical and nonstatistical sampling techniques. The two chapters on sampling also present the use of computer software for statistical sampling applications.

• The coverage of legal liability in Chapter 20 stresses the current Canadian legal environment and provides numerous examples of important Canadian legal precedent cases. In recognition of the fact that our legal environment has been and continues to be influenced by other jurisdictions, reference is made to important legal cases in both the UK and US, but the emphasis is on the current Canadian environment.

• The end-of-chapter materials contain review questions, multiple-choice questions, problems, and discussion cases from a variety of sources. Multiple-choice questions have long been a standard component of the CPA examinations in the US and as a result the AICPA has an extensive data bank of such questions. The multiple-choice questions are mostly drawn from that source, appropriately adapted to fit the Canadian context and supplemented or replaced by questions from other sources such as the Certified General Accountants Association of Canada. The problems and discussion cases are drawn from CICA Uniform Final Examinations, CGAC National Examinations, provincial Institute of Chartered Accountants examinations, CPA and CIA examinations, and from problems developed by the authors. Canadian-sourced problems and discussion cases were included, not just to add Canadian content, but to provide students with an opportunity to test themselves with the kind of questions they will confront if they pursue a professional accounting career in Canada.

Technology

Online Learning Centre

The Online Learning Centre (www.mcgrawhill.ca/college/messier) serves as an extension of the text, providing supplements, bonus content, and regularly updated materials for students and instructors. The Student Centre contains additional multiple-choice questions for student study, ready notes to assist in lecture preparation, and bonus appendix material. The Instructor Centre includes appendix material, links to industry sites, and downloadable supplements. In addition, the OLC links to the EarthWear and Willis & Adams websites.
Auditing & Assurance Services: A Systematic Approach is available, at the instructor’s discretion, through the eBook Bookstore. The text is downloaded to the student’s computer in PDF-formatted files and may be printed or viewed on screen. Ask your instructor about the eBook version of this text.

PageOut is a McGraw-Hill online tool that enables instructors to create and post class-specific webpages simply and easily. No knowledge of HTML is required.

This textbook is available in two of the most popular delivery platforms, WebCT and Blackboard. These platforms provide instructors with more user-friendly, flexible teaching tools.

The following instructor supplements are available on the Instructor’s Supplement CD-ROM (0-07-088037-9), and most are downloadable from the Online Learning Centre:

- The Solutions Manual, containing thorough up-to-date solutions to the book’s end-of-chapter material, is also available from the OLC.
- The Computerized Test Bank, including additional multiple-choice questions adapted from professional examinations. Professors may use this software to create, edit, and print a variety of tests.
- PowerPoint slides to support and organize lectures. The PowerPoint slides are also included as Ready Notes in the Student Centre of the OLC.
In addition, students and instructors may wish to refer to:

- Communication for Accountants: Effective Strategies for Students and Professionals (0-07-038390-1), authored by Maurice Hirsch of Southern Illinois University–Carbondale, and Susan Gabriel and Rob Anderson, both of St. Louis University, is a brief and inexpensive handbook that addresses the need for accountants to communicate effectively through both writing and speaking.

Acknowledgments and Development Focus

Craig Emby would like to acknowledge the Canadian Institute of Chartered Accountants for permission to quote from the CICA Handbook and the Uniform Final Examination; the Certified General Accountants Association of Canada for permission to quote from auditing examinations; the Institute of Chartered Accountants of British Columbia and the Institute of Chartered Accountants of Ontario for permission to quote from auditing examinations; and the American Institute of Certified Public Accountants for permission to quote from the Uniform CPA Examination and the Journal of Accountancy. Bill Messier would also like to thank Bill Kinney and the PricewaterhouseCoopers LLP Foundation for granting permission to use selected case materials, and for providing permission to use PW STAT in Chapters 8 and 9.

Extensive feedback from our market research, including surveys and reviews, and the valuable suggestions provided by that process helped us develop and enhance this product. Thank you to the following colleagues for their invaluable advice: Karim Jamal, University of Alberta; Janet Morrill, University of Manitoba; Sandra Robinson, Concordia University; Steven Salterio, University of Waterloo; Dan Simunic, University of British Columbia; and Jan Thatcher, Lakehead University.

Craig Emby would also like to thank the editorial and production staff at McGraw-Hill Ryerson—Hope Miller, Nicole Lukach, Kelly Dickson, Erin Moore, and Michelle Losier—for their patience and assistance in the preparation of this book.

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