

..... *❧* CANADIAN 12TH EDITION *❧*

AUDITING

.....
THE ART AND SCIENCE OF ASSURANCE ENGAGEMENTS
.....

ALVIN A. ARENS

PricewaterhouseCoopers Emeritus Professor,
Michigan State University

RANDAL J. ELDER

Syracuse University

MARK S. BEASLEY

North Carolina State University,
Deloitte Professor of Enterprise Risk Management

INGRID B. SPLETTSTOESSER

York University

PEARSON

Toronto

Vice-President, Editorial Director: Gary Bennett
Editor-in-Chief: Nicole Lukach
Acquisitions Editor: Megan Farrell
Marketing Manager: Jenna Wulff
Developmental Editor: Paul Donnelly
Project Manager: Richard di Santo
Manufacturing Manager: Jane Schell
Production Editor: Sandhya Gola, Cenveo Publisher Services
Copy Editor: Susan Bindernagel
Proofreaders: Nancy Carroll, Trish Jones
Permissions Researcher: Christina Beamish
Compositor: Cenveo Publisher Services
Art Director: Julia Hall
Interior and Cover Designer: Miriam Blier
Cover Image: George Diebold/Getty Images

Credits and acknowledgments for materials borrowed from other sources and reproduced, with permission, in this textbook appear on the appropriate page within the text.

Original edition published by Pearson Education, Inc., Upper Saddle River, New Jersey, USA. Copyright © 2012 Pearson Education, Inc. This edition is authorized for sale only in Canada. If you purchased this book outside the United States or Canada, you should be aware that it has been imported without the approval of the publisher or the author.

Copyright © 2013, 2011, 2007, 2003, 2000, 1997, 1993, 1991, 1988, 1987, 1984, 1980 Pearson Canada Inc. All rights reserved. Manufactured in the United States of America. This publication is protected by copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission(s) to use material from this work, please submit a written request to Pearson Canada Inc., Permissions Department, 26 Prince Andrew Place, Don Mills, Ontario, M3C 2T8, or fax your request to 416-447-3126, or submit a request to Permissions Requests at www.pearsoncanada.ca.

10 9 8 7 6 5 4 3 2 1 CKV

Library and Archives Canada Cataloguing in Publication

Auditing : the art and science of assurance engagements / Alvin A. Arens ... [et al.].—Canadian 12th ed.

Includes index.

ISBN 978-0-13-279156-4

1. Auditing—Textbooks. I. Arens, Alvin A.

HF5667.A82 2012

657'.45

C2012-906497-1

PEARSON

ISBN 978-0-13-279156-4

Brief Contents

[Part 1] The Auditing Profession 1

- 1 The Demand for an Auditing and Assurance Profession 2
- 2 The Public Accounting Profession 24
- 3 Professional Relationships: The Role of Ethics and Independence 46
- 4 Legal Liability 72

[Part 2] The Audit Process 99

- 5 Audit Responsibilities and Objectives 100
- 6 Client Risk Profile and Documentation 154
- 7 Materiality and Risk 179
- 8 Audit Evidence 213
- 9 Internal Controls and Control Risk 252
- 10 Audit Strategy and Audit Program 306
- 11 Audit Sampling Concepts 335

[Part 3] The Auditor's Risk Response: Audit of Cycles and Accounts 359

- 12 Audit of the Sales and Collection Cycle: Tests of Controls 360
- 13 Completing the Tests in the Sales and Collection Cycle: Accounts Receivable 408
- 14 Audit of Cash Balances 449
- 15 Audit of the Human Resources and Payroll Cycle 475
- 16 Audit of the Acquisition and Payment Cycle 501
- 17 Audit of the Inventory and Distribution Cycle 534
- 18 Audit of the Capital Acquisition and Repayment Cycle 554

[Part 4] Completing the Audit, Reporting, and Offering Other Services 570

- 19 Completing the Audit 571
- 20 Auditor Reporting 593
- 21 Assurance Services: Review and Compilation Engagements 616

Contents

Preface xi

[Part 1] The Auditing Profession 1

1 The Demand for an Auditing and Assurance Profession 2

Learning Objectives 2

Nature and Relevance of Auditing 5

Assurance and Non-Assurance Services 9

Professional Accountants and Their Work 15

Summary 19

Review Questions 19

Discussion Problems 20

Professional Judgment Problems 21

CASE 1-20 22

Ongoing Small Business Case: Thinking about CondoCleaners.com 22

2 The Public Accounting Profession 24

Learning Objectives 24

Organization of Public Accounting Firms 26

Responding to the Public Call for High-Quality Audits 29

Quality Control 38

Summary 42

Review Questions 43

Discussion Problems 43

Professional Judgment Problem 44

CASE 2-20 44

Ongoing Small Business Case: Planning for CondoCleaners.com 45

3 Professional Relationships: The Role of Ethics and Independence 46

Learning Objectives 46

Ethical Behaviour is a Cornerstone of Trust 48

Professional Ethics and Principles of Conduct 52

Professional Rules of Conduct for the Public Accountant 58

Summary 67

Review Questions 68

Discussion Questions and Problems 68

Professional Judgment Problems 70

CASE 3-23 71

Ongoing Small Business Case: Quitting the Firm to Start CondoCleaners.com 71

4 Legal Liability 72

Learning Objectives 72

Appreciating the Legal Environment 74

Legal Terms Affecting PAs and Their Clients 79

Liability to Non-Clients	85
Auditor Liability Prevention	88
Legislation and the Assurance Engagement	90
APPENDIX 4A: Securities Legislation	92
<i>Summary</i>	94
<i>Review Questions</i>	95
<i>Discussion Questions and Problems</i>	95
<i>Professional Judgment Problem</i>	97
CASE 3-40	97
<i>Ongoing Small Business Case: CondoCleaners.com and the Law</i>	98

[Part 2] The Audit Process 99

5	Audit Responsibilities and Objectives	100
	<i>Learning Objectives</i>	100
	The Objective of the Audit—Management and Auditor Responsibilities	102
	Before Accepting an Engagement, Preplanning Takes Place	108
	Audit Phases	112
	Entity-Level Controls and Financial Statement Cycles	118
	Management Assertions and Audit Objectives	125
	<i>Summary</i>	133
	<i>Review Questions</i>	133
	<i>Discussion Questions and Problems</i>	134
	<i>Professional Judgment Problem</i>	136
	CASE 5-28	137
	<i>Ongoing Small Business Case: Transaction Flows at CondoCleaners.com</i>	137
	Hillsburg Hardware Ltd. 2011 Annual Report	138
6	Client Risk Profile and Documentation	154
	<i>Learning Objectives</i>	154
	The Importance of Audit Planning	156
	Client Risk Profile Evidence Gathering and Preliminary Analytical Review	166
	The Nature of Audit Working Papers	168
	<i>Summary</i>	173
	<i>Review Questions</i>	173
	<i>Discussion Questions and Problems</i>	174
	<i>Professional Judgment Problem</i>	177
	CASE 6-27	177
	<i>Ongoing Small Business Case: Management-Prepared Working Papers at CondoCleaners.com</i>	178
7	Materiality and Risk	179
	<i>Learning Objectives</i>	179
	Risk in Auditing and the Audit Risk Model	182
	Inherent Risk Assessment	190
	The Importance of Materiality	192
	Relating Risk and Materiality to Audit Performance	201
	APPENDIX A: Disaster Recovery Planning	205
	<i>Summary</i>	206
	<i>Review Questions</i>	207
	<i>Discussion Questions and Problems</i>	207
	<i>Professional Judgment Problem</i>	211

	CASE 7-24	211
	<i>Ongoing Small Business Case: Materiality for CondoCleaners.com</i> 212	
8	Audit Evidence	213
	<i>Learning Objectives</i>	213
	Audit Evidence and Associated Decisions	215
	Methods of Evidence Collection	222
	Choosing the Right Type of Evidence	228
	Analytical Procedures and Their Role	232
	APPENDIX 8A: Common Financial Ratios	241
	<i>Summary</i>	246
	<i>Review Questions</i>	246
	<i>Discussion Questions and Problems</i>	247
	<i>Professional Judgment Problem</i>	249
	CASE 8-26	250
	<i>Ongoing Small Business Case: Banking at CondoCleaners.com</i> 251	
9	Internal Controls and Control Risk	252
	<i>Learning Objectives</i>	252
	Differing Perspectives of Internal Control	254
	COSO Components of Internal Control	262
	IT (Information Technology) Governance and the Audit of General Information Systems Controls	274
	Internal Controls and the Audit Process	279
	Small Business Controls	298
	<i>Summary</i>	299
	<i>Review Questions</i>	300
	<i>Discussion Questions and Problems</i>	301
	<i>Professional Judgment Problem</i>	303
	CASE 9-38	304
	<i>ACL Problem</i>	304
	<i>Ongoing Small Business Case: COSO Controls at CondoCleaners.com</i> 304	
10	Audit Strategy and Audit Program	306
	<i>Learning Objectives</i>	306
	Audit Strategy and Audit Tests	308
	Evidence Mix Decisions	317
	Creating the Audit Programs	322
	The Audit Process and Client Conversion to IFRS	328
	<i>Summary</i>	329
	<i>Review Questions</i>	330
	<i>Discussion Questions and Problems</i>	331
	<i>Professional Judgment Problem</i>	333
	CASE 10-24	333
	<i>Ongoing Small Business Case: Auditing Revenue Recognition at CondoCleaners.com</i> 334	
11	Audit Sampling Concepts	335
	<i>Learning Objectives</i>	335
	The Nature of Sampling	337
	Probabilistic and Statistical Samples	342
	Steps in Conducting the Sampling Process	345

Summary 355
Review Questions 355
Discussion Questions and Problems 356
Professional Judgment Problem 357
CASE 11-25 358
Ongoing Small Business Case: Sampling at CondoCleaners.com 358

[Part 3] The Auditor's Risk Response: Audit of Cycles and Accounts 359

12 Audit of the Sales and Collection Cycle: Tests of Controls 360

Learning Objectives 360
The Typical Sales Cycle 362
Sales Cycle Audit Planning 370
Methodology for Control Testing in the Remainder of the Cycle 381
Example of a Sales Audit 385
Summary 401
Review Questions 402
Discussion Questions and Problems 403
Professional Judgment Problem 405
CASE 12-30 406
ACL Problem 407
Ongoing Small Business Case: Commercial Accounts at CondoCleaners.com 407

13 Completing the Tests in the Sales and Collection Cycle: Accounts Receivable 408

Learning Objectives 408
Designing Tests of Details of Balances for Accounts Receivable 410
The Importance of Analytical Procedures 415
The Relationship Between Assertions and Tests of Detail 418
Auditing Hillsburg Hardware Accounts Receivable 429
Summary 442
Review Questions 443
Discussion Questions and Problems 443
Professional Judgment Problem 447
CASE 13-30 447
ACL Problem 448
Ongoing Small Business Case: Bad Debts at CondoCleaners.com 448

14 Audit of Cash Balances 449

Learning Objectives 449
Cash and the Transaction Cycles 451
Audit of the General Cash Account 454
Fraud-Oriented Procedures 462
Additional Examples of Cash Auditing 466
Summary 469
Review Questions 470
Discussion Questions and Problems 471
Professional Judgment Problem 473
CASE 14-23 473
Ongoing Small Business Case: PayPal.com Problems at CondoCleaners.com 474

- 15** Audit of the Human Resources and Payroll Cycle 475
- Learning Objectives* 475
 - The Nature and Importance of the Human Resources and Payroll Cycle 477
 - Internal Control Testing 484
 - Payroll Outsourcing and Third-Party Audits 489
 - Analytical Review and Tests of Detail 491
 - Summary* 494
 - Review Questions* 495
 - Discussion Questions and Problems* 496
 - Professional Judgment Problem* 498
 - CASE 15-26** 499
 - ACL Problem* 499
 - Ongoing Small Business Case: Payroll at CondoCleaners.com* 500
- 16** Audit of the Acquisition and Payment Cycle 501
- Learning Objectives* 501
 - The Nature of the Acquisition and Payment Cycle 504
 - Tests of Controls 509
 - Substantive Testing of Accounts Payable 515
 - Completing the Tests in the Acquisition and Payment Cycle: Verification of Selected Accounts 522
 - Summary* 528
 - Review Questions* 529
 - Discussion Questions and Problems* 530
 - Professional Judgment Problem* 531
 - CASE 16-25** 532
 - ACL Problem* 532
 - Ongoing Small Business Case: E-Payments at CondoCleaners.com* 533
- 17** Audit of the Inventory and Distribution Cycle 534
- Learning Objectives* 534
 - The Nature of the Inventory and Distribution Cycle 536
 - The Audit of Inventory 538
 - Conducting the Audit Tests 543
 - Summary* 550
 - Review Questions* 550
 - Discussion Questions and Problems* 551
 - Professional Judgment Problem* 552
 - CASE 17-21** 553
 - ACL Problem* 553
 - Ongoing Small Business Case: Supplies Inventory at CondoCleaners.com* 553
- 18** Audit of the Capital Acquisition and Repayment Cycle 554
- Learning Objectives* 554
 - The Nature of the Capital Acquisition and Repayment Cycle 556
 - Owners' Equity 562
 - Summary* 565
 - Review Questions* 565
 - Discussion Questions and Problems* 566

Professional Judgment Problem 568

CASE 18-26 568

Ongoing Small Business Case: Equity Accounts at CondoCleaners.com 569

[Part 4] Completing the Audit, Reporting, and Offering Other Services 570

19 Completing the Audit 571

Learning Objectives 571

Phase 7 and Selected Final Audit Procedures 573

Accumulate Final Evidence 581

Evaluate Results and Document Quality Control Procedures 585

Auditor Communications and Subsequent Facts 587

Summary 589

Review Questions 590

Discussion Questions and Problems 590

Professional Judgment Problem 592

CASE 19-25 592

Ongoing Small Business Case: Subsequent Events at CondoCleaners.com 592

20 Auditor Reporting 593

Learning Objectives 593

The Standard Independent Auditor's Report 596

Variations to Unqualified Audit Reports 599

Non-Standard Auditor's Reports 602

Summary 611

Review Questions 612

Discussion Questions and Problems 612

Professional Judgment Problem 615

CASE 20-24 615

Ongoing Small Business Case: Auditor's Report for CondoCleaners.com 615

21 Assurance Services: Review and Compilation Engagements 616

Learning Objectives 616

Assurance Engagements 618

Review and Compilation Services 621

Interim Financial Information and Future-Oriented Information 628

Summary 631

Review Questions 631

Discussion Questions and Problems 631

Professional Judgment Problem 633

CASE 21-19 633

Ongoing Small Business Case: Potential Expansion at CondoCleaners.com 634

Index 677

Preface

Welcome to the Canadian Twelfth Edition of *Auditing: The Art and Science of Assurance Engagements*. Standards are continuing to evolve and upgrade the quality of the auditing profession, and we have responded by also upgrading the quality of our text. I say we, because Shaweta Roopra, a Manager with Deloitte & Touche, Toronto, in National Assurance Services, has joined the writing team as a contributing author. Shaweta has provided valuable advice about IFRS, ASPE, and current auditing standards and practices that are embedded into every chapter of this text.

We have gone through every word, exhibit, and table carefully, trimmed what we could, added more risk-focused material, and added and revised figures and tables to better portray concepts. Shaweta's experience as a contract faculty member at York University for several years has enabled her to consider the teaching and communication focus as well as current auditing and accounting standards.

What's New to This Edition?

- Greater emphasis on risk assessment and strategic auditing.
- Clarity around auditing standards—New icons and text boxes highlight the changes that are occurring as Canada has adopted new international standards, and references to prior *CICA Handbook* sections have been removed.
- CondoCleaners.com—This running case with discussion questions about a small company, CondoCleaners.com, focuses attention on the auditing needs of small businesses. It has been expanded to appear in all chapters.
- Inclusion of adapted practice problems from past CGA Canada auditing examinations in each chapter.
- Learning Objective references have been added to all of the end-of-chapter discussion and practice problems and cases.
- Chapters are organized in a new order to facilitate progressive learning; details are provided below.

Students want more practical information and practice to illustrate the assurance material that can, at times, be quite technical. This new edition of *Auditing* therefore contains more stories and practice questions that relate to small and large businesses at home or from the international business perspective.

Objectives

This book is intended for use in an introductory auditing course, for one-semester or two-semester instruction at the undergraduate or graduate level. Using a risk-based approach, this text focuses on the auditor's decision-making processes. It is important to keep the underlying objective in mind—to assess risks and tailor the audit approach as a response to those risks. The evidence collected must enable the auditor's statement of opinion with respect to financial statements (and other types of information, as discussed in the last chapter). Assessing and documenting the risks associated with the client's business and the various components of the financial statements allows the auditor to target the fieldwork to specific objectives called audit assertions. If a student in auditing understands the risks to be addressed in a given audit area, the

circumstances of the engagement, and the decisions to be made, he or she should be able to determine the appropriate evidence to gather and how to evaluate the evidence obtained.

The title of this book reflects the reality that auditing goes beyond financial statement auditing to other assurance services. Auditing is an art, as it requires considerable use of professional judgment, but it is also a science, resting upon a solid frame of technical skills and knowledge of multiple disciplines, including accounting, tax, and information systems. In incorporating substantial new material on risk assessment and corporate governance, our primary purpose is to integrate the most important concepts of financial statement auditing and the general assurance engagement framework. Electronic commerce, non-profit businesses, and many topics that engage professional judgment are highlighted by Problems and by specialized boxes: Auditing in Action and Audit Challenge.

Organization

This text is divided into four parts.

Part 1, The Auditing Profession (Chapters 1–4)

We begin by explaining the importance of assurance services, including auditing, and differentiating accounting from auditing. Then we talk about the different types of accountants and what they do. Chapter 1 now has increased content on internal auditing and internal auditors. In Chapter 2, we move to the role of public accounting firms and other organizations, such as the Office of the Auditor General of Canada, in doing audits. We show how the Sarbanes–Oxley Act, Canadian and international quality control standards, and the Canadian Public Accountability Board have resulted in methods that produce high-quality audits. The final product, the Independent Auditor’s Report, is shown. Chapter 3, Professional Relationships, reflects the fact that professional rules of conduct govern the behaviour of the public accountant in the context of relationships with corporations, other business entities, and the users of reports. Two approaches to dealing with ethical dilemmas are discussed, with a recent approach called “Giving Voice to Values” (GVV), providing students with a proactive method for responding in accordance with their values. Independence standards using a threat-based model are applied to public and non-public engagements. Threats to independence and the way these are mitigated with good quality-control practices are thoroughly examined. Part 1 concludes with Chapter 4, which presents an investigation of the auditor’s legal liability and the profession’s response.

Part 2, The Audit Process (Chapters 5–11)

This section has been adapted to international terminology, whereby the audit process phases are grouped into three sections: Risk Analysis, Risk Response, and Reporting. Chapter 5 allocates eight phases to those three sections, integrating international standards with Canadian practice and standards. It explains the auditor’s and management’s responsibilities and the key role of the audit committee in corporate governance. Fraud risk is discussed by audit phase. Transaction cycles are explained with the help of the annual report and financial statements of Hillsburg Hardware Limited, a fictitious public company located in eastern Canada. Chapter 6 focuses on the development of a client risk profile in the context of the business environment. The risk-based audit approach with its large investment in up-front planning and the concepts of materiality, performance materiality, and the audit risk model are covered in Chapter 7. Chapter 8 links evidence decisions to assessed risks and includes general concepts of evidence accumulation. Chapter 9, Internal Controls and Control Risk, uses the components of internal control that are consistent with international standards. Fraud risk assessment is integrated with control risk assessment. Chapter 10

provides an overall strategic risk-based audit plan, linking planning to assertion-based audit programs, with a new section on the impact of client conversions to IFRS. Chapter 11 discusses sampling concepts relevant to the audit process.

Part 3, The Auditor's Risk Response: Audit of Cycles and Accounts (Chapters 12–18)

These chapters apply the concepts from Part 2 to the audit of multiple functional cycles. Each cycle chapter (12, 14 through 18) has an early discussion of risks of fraud and error in the cycle. This enables the ensuing discussion of controls and risk responses (audit procedures) to be related to these risks of fraud and error.

In Chapter 12 we start with sales, cash receipts, and the related income statement and balance sheet accounts, using further details from Hillsburg Hardware Limited as examples. Risks of error and fraud in the cycle lead to audit procedures for sales and cash receipts for particular internal control and audit objectives for tests of controls. Chapter 13 continues to use audit objectives and the results of internal controls tests to formulate tests of details of balances. Students will learn to apply audit sampling to the audit of sales, cash receipts, and accounts receivable by incorporating sampling into the appropriate test, showing the design, conduct, and evaluation of the sample.

The remaining chapters in Part 3 deal with a specific transaction cycle or part of a transaction cycle in much the same manner as Chapters 12 and 13 deal with the sales and collection cycle. Each chapter is meant to demonstrate the relationship of risks to internal controls and tests of controls for each broad category of transactions to the related balance sheet and income statement accounts. Cash in bank is the first of these chapters studied, since the audit of cash balances is related to most other audit areas.

Part 4, Completing the Audit, Reporting, and Offering Other Services (Chapters 19–21)

Completion of the audit depends on evaluating whether sufficient audit evidence has been gathered, in the context of the client risk profile and the audit risk model, to enable provision of an opinion on the financial statements. This final phase is explained in Chapter 19. Chapter 20 describes audit reports and variations to such reports. The chapter has significant changes due to the adoption of international standards resulting in a longer and more specific audit report, with the predecessor report now removed. The impact of events discovered after the report date are considered. The final chapter, Chapter 21, focuses on review and compilation engagements, a common service for small- and medium-sized businesses, both profit-oriented and non-profit-oriented. It also describes other types of assurance engagements, such as a report of assurance with respect to internal control over financial reporting, required by public companies under Section 404 of the Sarbanes–Oxley Act of 2002 in the United States.

Chapter Outline

Each chapter contains the following:

- Learning Objectives, listing the concepts that you should be able to address after reading the chapter.
- An opening vignette discussing a real-world topic to highlight a theme and the importance of the chapter. Each vignette describes the importance of the topic to auditors and provides questions to think about the topic further.
- A list of *CICA Handbook* sections or CASs referenced in the chapter, targeting additional readings.
- Figures and tables to illustrate, summarize, or clarify topics covered.

- Auditing in Action, Audit Challenge, and New Standards boxes identifying relevant challenges to auditors, successes and research, key current topics, further cases and questions, or recent events in the area.
- An icon (**CAS**) highlights discussions of new standards in the text.
- Essential terms defined in the margin and presented in boldface in the running text for easy reference.
- Concept Check questions placed at the end of each major chapter section, testing and reinforcing the section material.
- A summary expanding upon the learning objectives.
- Review questions for students to assess comprehension of chapter material.
- Discussion questions and one or two professional judgment problems offering real-world topics to which chapter content can be applied.
- Discussion questions about a small company, CondoCleaners.com, to focus attention on the needs of small business.
- ACL Problems that show students how audit software is used to perform specific types of audit tests.

MyAccountingLab

The moment you know. Educators know it. Students know it. It's that inspired moment when something that was difficult to understand suddenly makes perfect sense. Our MyLab products have been designed and refined with a single purpose in mind—to help educators create that moment of understanding with their students.

MyAccountingLab delivers **proven results** in helping individual students succeed. It provides **engaging experiences** that personalize, stimulate, and measure learning for each student. And it comes from a **trusted partner** with educational expertise and an eye on the future.

The MyAccountingLab for the Canadian Twelfth Edition of *Auditing: The Art and Science of Assurance Engagements* includes many valuable assessments and study tools to help students practise and understand key concepts from the text. Students can practise select end-of-chapter questions, review key terms with glossary flashcards, access student PowerPoint slides, and explore integrated case content.

MyAccountingLab can be used by itself or linked to any learning management system. To learn more about how MyAccountingLab combines proven learning applications with powerful assessment, visit www.myaccountinglab.com.

Student Resources

COURSESMAART FOR STUDENTS CourseSmart goes beyond traditional expectations—providing instant, online access to the textbooks and course materials you need at an average savings of 60 percent. With instant access from any computer and the ability to search your text, you'll find the content you need quickly, no matter where you are. And with online tools like highlighting and note-taking, you can save time and study efficiently. See all the benefits at www.coursesmart.com/students.

Instructional Support Materials

INSTRUCTOR'S RESOURCE MANUAL The Instructor's Resource Manual assists the instructor in teaching the course more efficiently. The features include instructions for assignments, practical examples to help the students understand the material, and helpful suggestions on how to effectively teach each chapter. This manual also includes guidelines for downloading ACL audit software, solutions to ACL problems, and additional ACL exercises.

INSTRUCTOR'S SOLUTIONS MANUAL This comprehensive resource provides detailed solutions to all the end-of-chapter review questions, multiple-choice questions, problems, and cases.

PEARSON TESTGEN A comprehensive testbank of questions has been prepared to accompany the new edition. The questions are rated by difficulty level and are correlated to learning objectives. The testbank is presented in a special computerized format known as Pearson TestGen. It enables instructors to view and edit the existing questions, add questions, generate tests, and print the tests in a variety of formats. Powerful search and sort functions make it easy to locate questions and arrange them in any order desired. TestGen also enables instructors to administer tests on a local area network, grade the tests electronically, and prepare the results in electronic or printed reports. Pearson TestGen is compatible with PC and Macintosh systems.

POWERPOINT SLIDES Electronic colour slides are available in Microsoft PowerPoint. The slides illuminate and build on key concepts in the text.

IMAGE LIBRARY The Image Library is an impressive resource that helps instructors create vibrant lecture presentations. Almost all figures and tables in the text are included and organized by chapter for convenience. These images can easily be imported into Microsoft PowerPoint to create new presentations or to add to existing ones.

COURSESMART FOR INSTRUCTORS CourseSmart goes beyond traditional expectations—providing instant, online access to the textbooks and course materials you need at a lower cost for students. And even as students save money, you can save time and hassle with a digital eTextbook that allows you to search for the most relevant content at the very moment you need it. Whether it's evaluating textbooks or creating lecture notes to help students with difficult concepts, CourseSmart can make life a little easier. See how when you visit www.coursesmart.com/instructors.

PEARSON eTEXT Pearson eText gives students access to the text whenever and wherever they have access to the internet. eText pages look exactly like the printed text, offering powerful new functionality for students and instructors. Users can create notes, highlight text in different colours, create bookmarks, zoom, click hyperlinked words and phrases to view definitions, and view in single-page or two-page view. Pearson eText allows for quick navigation to key parts of the eText using a table of contents and provides full-text search.

TECHNOLOGY SPECIALISTS Pearson's Technology Specialists work with faculty and campus course designers to ensure that Pearson technology products, assessment tools, and online course materials are tailored to meet your specific needs. This highly qualified team is dedicated to helping schools take full advantage of a wide range of educational resources, by assisting in the integration of a variety of instructional materials and media formats. Your local Pearson Education sales representative can provide you with more details on this service program.

Acknowledgments for the Canadian Twelfth Edition

Our world is changing. This text reflects some of those changes in the rapid pace of standards shifts in the external auditing profession. The feedback and assistance from individuals both inside and outside the profession, with different perspectives, have spurred on our creativity and reinforced the knowledge that we are all different and bring a broad spectrum of skills to the work we do.

I would like to thank the following individuals who contributed their time and energy in sharing their opinions and best practices, helping make this book

representative not only of sound theory but of the actual work done in the field of audit and assurance:

Sophie Audousset-Coulier, Concordia University
Stacie Chappell, Western New England University
Phil Cowperthwaite, Cowperthwaite Mehta
Susan Fisher, Algonquin College
Kenneth Fox, University of Alberta
David Hiscock, University of Guelph–Humber
Joanne Jones, York University
Kelsie McKay, Georgian College
Bruce MacLean, Dalhousie University
N. Dawn McGeachy, Colby McGeachy
James Palanacki, Deloitte & Touche LLP
Wendy Popowich, NAIT
Linda A. Robinson, University of Waterloo
Peter Romyee
William Sanjian Zhang, McGill University
Joseph Toste, Centennial College
Larry Yarmolinsky, Internal Audit Division, Government of Ontario
Douglas Yee, Sauder School of Business, BCIT

My biggest thanks goes to Shaweta Roopra, without whom I would not have had the time to complete this book. In addition to providing content, her invaluable guidance about which standards to review for a particular chapter helped me to focus my time.

In addition, I thank all the editorial and production staff at Pearson Canada for putting together a high-quality product, including Gary Bennett, Vice-President, Editorial Director; Megan Farrell, Acquisitions Editor; Nicole Lukach, Editor-in-Chief; Paul Donnelly, Developmental Editor; and Richard di Santo, Project Manager.

This book is dedicated to my family—Jake, Pat, and Mike—who did the extra chores around the house and cooked dinner while I worked late. Thank you; without your love and support this book would not have been possible.

Ingrid B. Splettstoesser

Thank-you, Ingrid Splettstoesser, for giving me an opportunity to be a contributing author to this book and for introducing me to the academic world. I would like to thank Deloitte & Touche LLP for the tremendous support and encouragement I received to enable me to contribute to this book. Finally, I would like to thank my family for their love and support through the authoring process.

Shaweta Roopra, Contributing Author