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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 businesses.
• ACL Problems that show students how audit software is used to perform specific types of audit tests.

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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.

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