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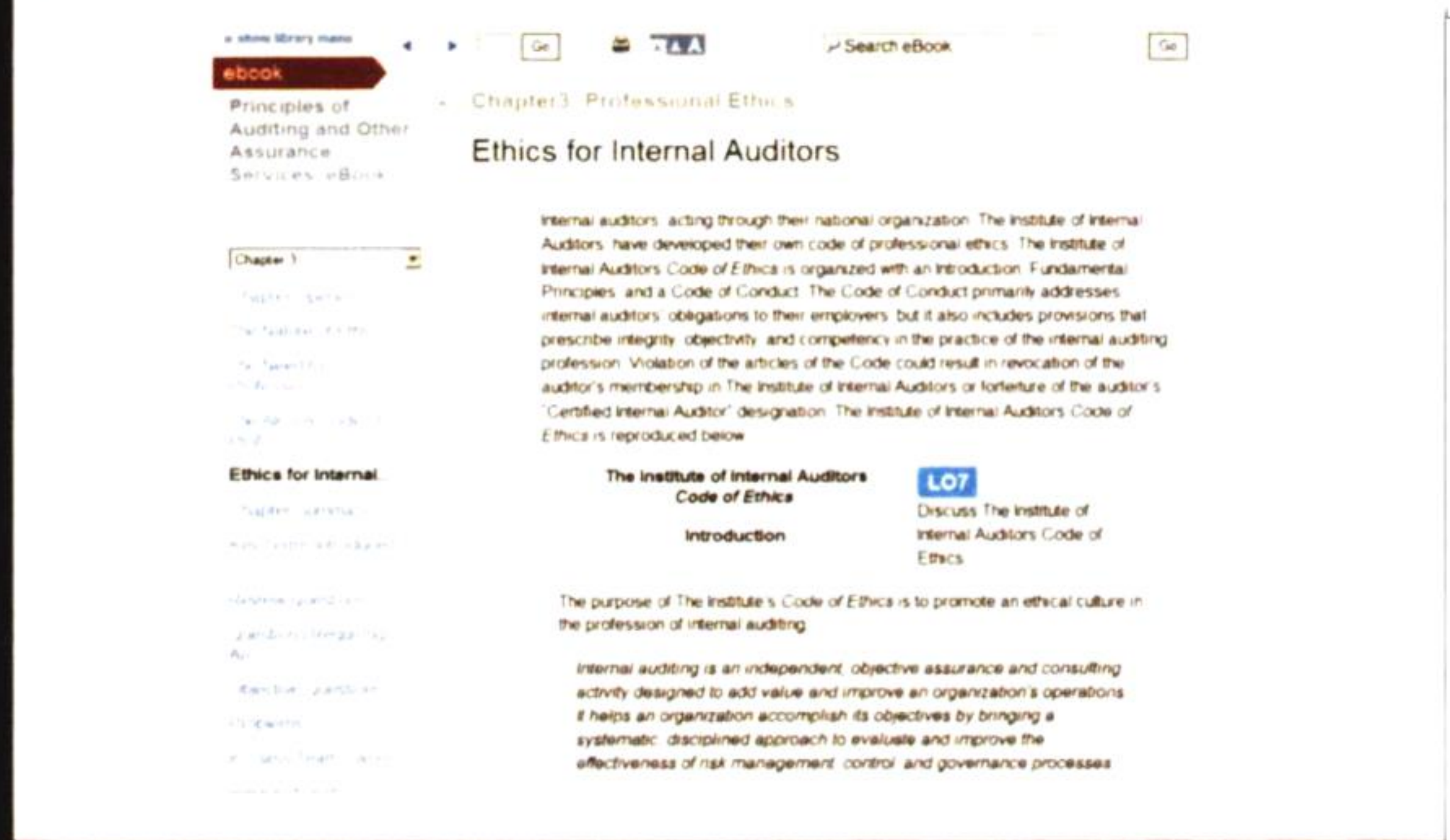
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Principles of Auditing & Other Assurance Services

Nineteenth Edition

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PRINCIPLES OF AUDITING & OTHER ASSURANCE SERVICES, NINETEENTH EDITION

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Preface

The 19th edition of *Principles of Auditing & Other Assurance Services* provides a carefully balanced presentation of auditing theory and practice. Written in a clear and understandable manner, it is particularly appropriate for students who have had limited or no audit experience. The approach is to integrate auditing material with that of previous accounting financial, managerial, and systems courses.

The text's first nine chapters emphasize the philosophy and environment of the auditing profession, with special attention paid to the nature and economic purpose of auditing, auditing standards, professional conduct, legal liability, audit evidence, audit planning, consideration of internal control, and audit sampling. Chapters 10 through 16 (the "procedural chapters") deal with internal control and obtaining evidence about the various financial statement accounts, emphasizing a risk-based approach to selecting appropriate auditing procedures. Chapter 17 presents the auditors' reporting responsibilities when performing financial statement audits. Chapter 18 provides detailed guidance on integrated audits of public companies performed in accordance with the Sarbanes-Oxley Act of 2002 and SEC requirements. Chapters 19 and 20 present the auditors' reporting responsibilities and other attestation and accounting services, such as reviews and compilations of financial statements and reports on prospective financial statements. Chapter 21 presents coverage of internal compliance and operational auditing.

The text is well suited for an introductory one-semester or one-quarter auditing course. Alternatively, it is appropriate for a two-course auditing sequence that covers the material in greater detail. For example, an introductory course might emphasize Chapters 11 through 10, 16, and 17. A second course may include coverage of the other procedural chapters (Chapters 11 through 15); integrated audits (Chapter 18); other attestation and accounting services; and internal, operational, and compliance auditing (Chapters 19, 20, and 21). The instructor might also wish to consider covering portions of Chapter 9 on sampling in the second course, with or without ACL software. Overall, the text and supporting materials provide:

1. **A balanced presentation.** The text provides a carefully balanced presentation of auditing and assurance theory and practice. The concepts are written in a clear, concise, and understandable manner. Real company examples are integrated throughout the text to bring this material to life. Finally, Keystone Computers & Networks, Inc., the text's illustrative audit case, is integrated into selected chapters, providing students with hands-on audit experience.
2. **Organization around balance sheet accounts emphasized in previous accounting courses.** Organizing the text around balance sheet accounts is a particularly straightforward and user-friendly way to address the risk assessment-based approach to auditing required by both U.S. and international auditing standards. These standards require an in-depth understanding of the audited company and its environment, a rigorous assessment of the risks of where and how the financial statements could be materially misstated, and an improved linkage between the auditors' assessed risks and the particulars of audit procedures performed in response to those risks. Chapters 5 through 7 of the text describe the risk assessment approach in detail. Chapters 10 through 16 are aligned with the risk assessment approach presented in the professional standards. Accordingly, the suggested audit approach and procedures of the professional standards flow smoothly from the approach suggested in earlier chapters of the text. In short, our organization of the book facilitates student learning of the risk assessment process in a very straightforward manner. Also, although the text chapters are structured around balance sheet accounts, they include a significant amount of material on transaction cycles. For example, Chapters 10 through 13 include detailed coverage of revenue, cash receipts, acquisitions, and disbursements cycles.

3. **CPA examination support.** Both the text's emphasis on current auditing standards and its many objective questions (both multiple choice and other objective format) are aimed at helping students pass the CPA exam. As discussed in detail in the following section, this edition has significantly expanded the number of task-based simulations like the ones included on the CPA exam.
4. **Strong student and instructor support.** Both *Connect*[®] *Accounting* and the Online Learning Center provide instructors and students with a wealth of material to help keep students up-to-date. The Center also contains quizzes and other resources to help students in this course. The address of the Center (and the text Web site) is www.mhhe.com/whittington19e.

We are confident that the 19th edition of *Principles of Auditing & Other Assurance Services* will provide students with a clear perspective of today's auditing environment.

O. Ray Whittington
Kurt Pany

The first nine chapters of the text emphasize the philosophy and environment of the profession, with special attention paid to the nature and economic purpose of auditing and assurance services, professional standards, professional conduct, legal liability, audit evidence, audit planning, consideration of internal control, audit sampling, audit documentation, and general records.

Chapter 1: Emphasizes the role of the public accountant, the structure of CPA firms, and the various types of audits and auditors. It also introduces the important concept of corporate governance and includes a brief history of the auditing profession, including up-to-date coverage of the Sarbanes-Oxley Act of 2002 and the Public Company Accounting Oversight Board.

Chapter 2: Includes detailed coverage of the new *Principles Underlying an Audit Conducted in Accordance with Generally Accepted Auditing Standards*, which replace the 10 generally accepted auditing standards for audits of nonpublic companies. An appendix highlights a number of differences between international and U.S. standards.

Chapter 3: Updated to reflect the most recent AICPA and PCAOB requirements.

Chapter 4: Clear, concise coverage of CPA legal liability based on suggestions by legal scholar Professor Marianne Jennings of Arizona State University.

Chapters 5 through 7: Material from the risk assessment standards is thoroughly integrated throughout.

Chapter 5: The discussion of evidence has been streamlined to parallel the presentation of evidence in recently issued auditing standards.

Chapter 6: The risk assessment approach to an audit is concisely summarized in a summary of the audit process.

Chapter 7: Discusses internal control and how it is considered in an audit of financial statements. It also includes a brief overview of integrated audits (audits of internal control integrated with financial statement audits) required for certain public companies under PCAOB Standard No. 5, with more detailed coverage provided in Chapter 18. The chapter includes a section on the audit requirements when a client outsources its computer processing to a service organization. Finally, it presents the auditors' internal control communication responsibilities.

Students in auditing need familiarity with auditing standards promulgated by three different bodies: (1) the AICPA's Auditing Standards Board, (2) the Public Company Accounting Oversight Board, and (3) the International Auditing and Assurance Standards Board. While similar in most respects, key differences exist among these sets of standards. The text integrates discussions of the various standards, focusing on the differences, in a very readable manner.

This edition of the text has significantly expanded the number of task-based simulations included in the after-chapter problem material. These questions are designed to help students both to learn the material presented in the text and to prepare them to complete such questions on the CPA exam. Many of the task-based simulations are adapted from CPA exam questions released by the AICPA, and others were written by the authors to be similar to those released by the AICPA.

- 1 The Role of the Public Accountant in the American Economy
- 2 Professional Standards
- 3 Professional Ethics
- 4 Legal Liability of CPAs
- 5 Audit Evidence and Documentation
- 6 Audit Planning, Understanding the Client, Assessing Risks, and Responding
- 7 Internal Control

Keystone Computers & Networks, Inc., is the text's **Illustrative Audit Case**. This feature has been updated in this edition and illustrates audit methods and provides realistic, thought-provoking case exercises. Although each portion of the case is designed to stand alone, if used in combination, the case will help the student develop problem-solving skills in planning (Chapter 6), in considering internal control and testing account balances (Chapters 11 and 14), and in completing the audit (Chapter 16). The case incorporates the use of computerized accounting applications and also integrates the fundamentals of audit sampling from Chapter 9.

- 8 Consideration of Internal Control in an Information Technology Environment
- 9 Audit Sampling
- 10 Cash and Financial Investments
- 11 Accounts Receivable, Notes Receivable, and Revenue
- 12 Inventories and Cost of Goods Sold
- 13 Property, Plant, and Equipment: Depreciation and Depletion
- 14 Accounts Payable and Other Liabilities
- 15 Debt and Equity Capital
- 16 Auditing Operations and Completing the Audit
- 17 Auditors' Reports
- 18 Integrated Audits of Public Companies
- 19 Additional Assurance Services: Historical Financial Information
- 20 Additional Assurance Services: Other Information
- 21 Internal, Operational, and Compliance Auditing

Chapter 8: Emphasizes the impact of IT on audits. It includes concepts such as "off-the-shelf" software packages through the use of cloud computing.

Chapter 9: Includes attributes and variable sampling. For variables sampling there are standalone discussions of classical methods and probability-proportional-to-size sampling.

Chapters 10 through 16: These "procedural chapters" deal with internal control and obtaining audit evidence for the various financial statement amounts. The chapters emphasize the risk-based approach stressed in recent AICPA, PCAOB, and international standards.

Chapter 17: Reflects new reporting requirements of the AICPA clarity standards, as well as coverage of PCAOB and international audit reports. Coverage of audits of group financial statements is updated in response to these standards.

Chapter 18: Reflects PCAOB *Standard No. 5* on the audit of internal control over financial reporting required for public companies.

Chapter 19: Updated to include current coverage of compilation and review engagements, auditor reporting on financial statements prepared using a special-purpose framework, and other changes due to the AICPA clarity standards.

Chapter 20: Discusses a variety of attestation and other assurance services. The material on attestation services describes the current professional standards. Recent pronouncements on service organization control (SOC) reports are included. Other assurance services are included at both a conceptual and practical level.

Chapter 21: Includes a discussion of compliance auditing based on the suggestions of Mr. Norwood J. Jackson, former Deputy Controller, Office of Federal Management, U.S. Office of Management and Budget. It is updated for the 2007 revision to the "Yellow Book."