

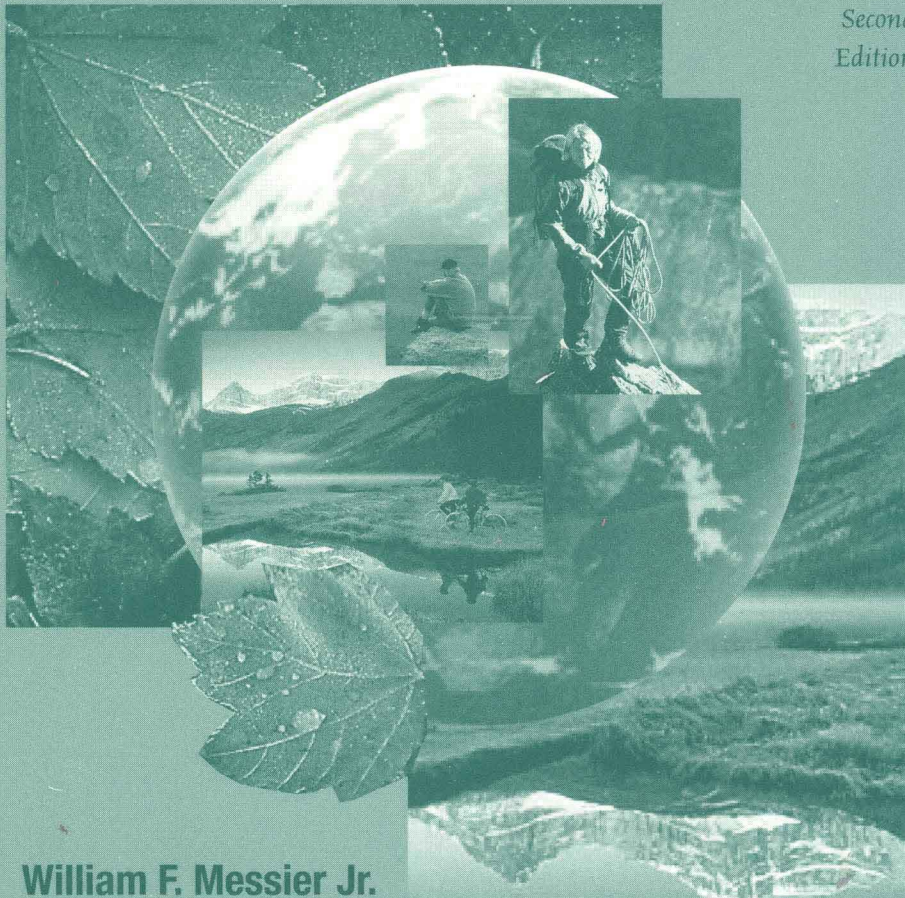
Ready Notes

for use with

AUDITING & ASSURANCE SERVICES

A SYSTEMATIC APPROACH

*Second
Edition*



William F. Messier Jr.

Ready Notes
for use with
**Auditing and
Assurance Services**
A Systematic Approach

Second Edition

William F. Messier
Georgia State University



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A Systematic Approach

William F. Messier

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Welcome to

READY NOTES

This booklet includes *Ready Notes* for use with **Auditing and Assurance Services: A Systematic Approach**. *Ready Notes* were designed for you, the student as a classroom supplement to accompany *Ready Shows*.

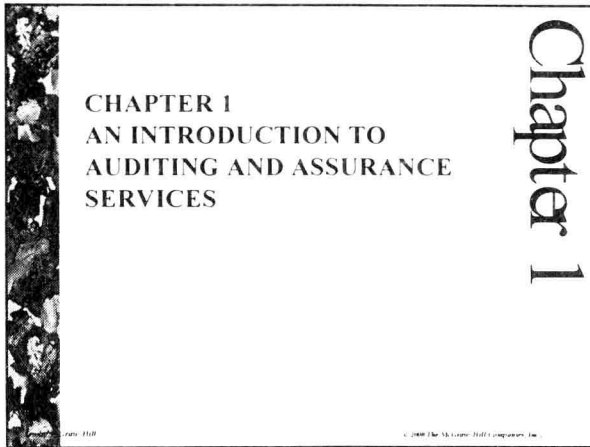
Somewhere in your educational experience, you have undoubtedly encountered a common dilemma facing many students; the feeling of helplessness that comes from trying to write down everything your instructor says and, at the same time, actually paying attention to what is being taught. *Ready Notes* addresses this problem by providing pre-prepared lecture outlines to accompany the *Ready Shows* your instructor will be using in class. Rather than spending time copying material that is already in the book, you will be able to focus on the most important aspects of what your instructor is actually saying. You will still be expected to take notes, but the nature of those notes will change.

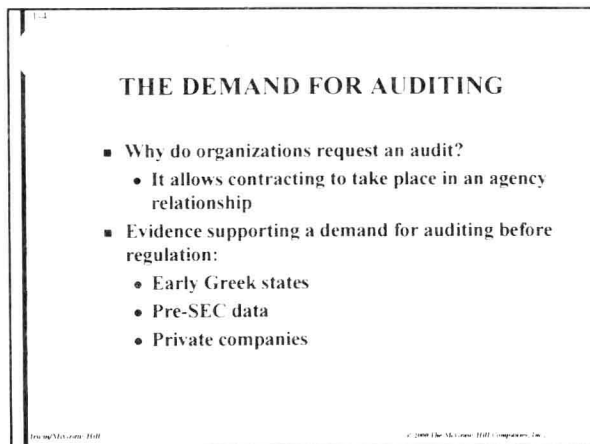
Each page in *Ready Notes* includes reproductions of the actual projected screens that you will be seeing in class. The *Ready Notes* booklet includes the information for the examples that your instructor will be presenting.

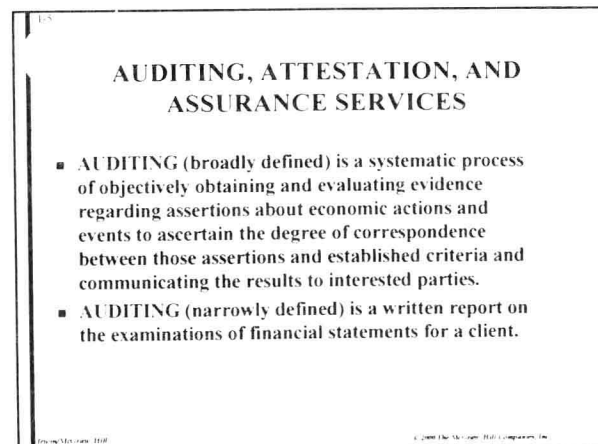
As with any learning aid, few students succeed without attending class and preparing adequately. However, used properly, *Ready Notes* will help you to achieve your goals for the course. Good luck!

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AUDITING, ATTESTATION, AND ASSURANCE SERVICES

- **ATTESTATION** occurs when a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.
- **Examples:**
 - Future-oriented financial information
 - Management's discussion and analysis
 - The effectiveness of internal control
 - Compliance with statutory, regulatory, or contractual obligations

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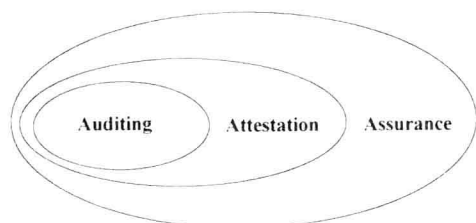
AUDITING, ATTESTATION, AND ASSURANCE SERVICES

- **ASSURANCE** services are independent professional services that improve the quality of information, or its context, for decision makers.
- **Examples:**
 - Risk assessment
 - Information system reliability
 - Electronic commerce
 - Health care performance measurement

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THE RELATIONSHIP BETWEEN AUDITING, ATTESTATION, AND ASSURANCE SERVICES




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TYPES OF AUDITS

- Financial statements audits
- Compliance audits
- Operational audits
- Forensic audits




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TYPES OF AUDITORS

- External auditors
- Internal auditors
- Government auditors
- Forensic auditors



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THE PUBLIC ACCOUNTING PROFESSION

- Issues currently affecting the profession
- Public accounting firms
- Types of services

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ISSUES AFFECTING THE PROFESSION

- An expectation gap
- Litigation
- Expanded services
- Globalization
- Mergers



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PUBLIC ACCOUNTING FIRMS

- Organizational structure
- Firm groupings
- Audit team structure

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ORGANIZATIONAL STRUCTURE

- Proprietorships
- Partnerships - LLPs
- Professional corporations



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FIRM GROUPINGS


- Big 5 firms
- Large national firms with international affiliation
- Regional and local firms

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AUDIT TEAM STRUCTURE

- Partner
- Manager
- Senior/Supervisor
- Staff




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TYPES OF SERVICES

- Audits
- Tax services
- Management advisory services
- Accounting and review services



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ORGANIZATIONAL GROUPS THAT IMPACT INDEPENDENT AUDITORS

- American Institute of Certified Public Accountants
- Public Oversight Board
- Financial Accounting Standards Board
- Government Accounting Standards Board
- Securities and Exchange Commission
- Independence Standards Board

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GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

- General Standards
- Standards of Field Work
- Standards of Reporting



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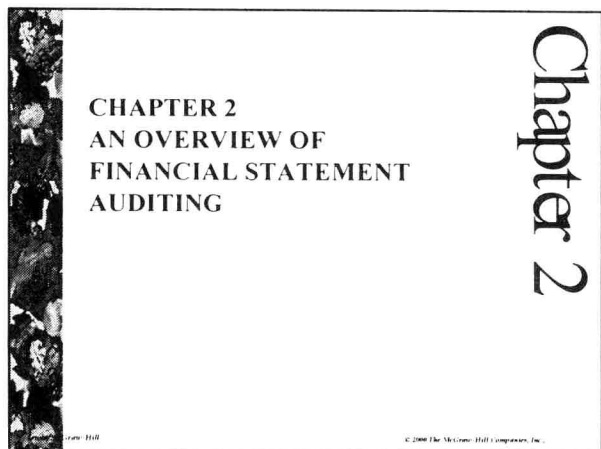
1-20

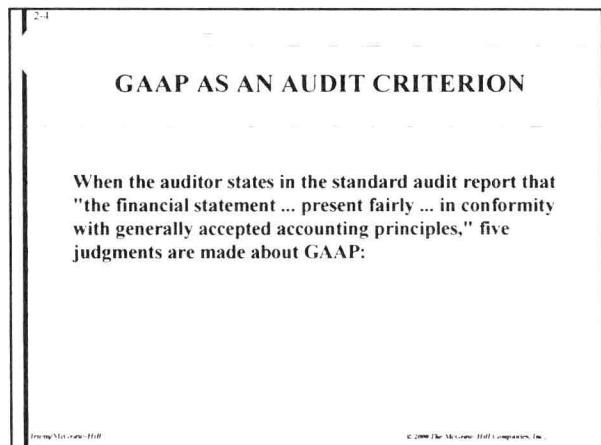
STATEMENTS ON AUDITING STANDARDS (SASs)

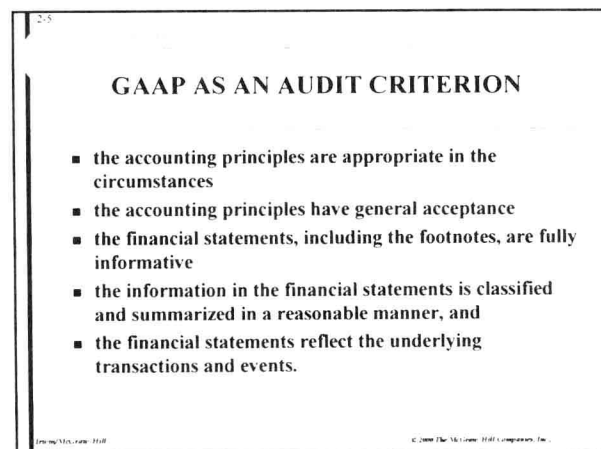
- SASs are issued by the Auditing Standards Board and are considered interpretations of GAAS.
- SASs receive their authority from Rule 202 of the Code of Professional Conduct.
- GAAS and the SASs are considered to be minimum standards of performance for auditors.

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FINANCIAL STATEMENTS; MANAGEMENT ASSERTIONS AND AUDIT OBJECTIVES

- Management assertions
- Audit objectives
- Audit procedures

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THE AUDITOR'S RESPONSIBILITY FOR ERRORS, FRAUD, AND ILLEGAL ACTS

- The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether caused by error or fraud.
- The auditor's responsibility to detect misstatements resulting from illegal acts is the same as that for error or fraud.

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ETHICS AND INDEPENDENCE

- Ethics refers to a system or code of conduct based on moral duties and obligations that indicates how we should behave.
- Professionalism refers to the conduct, aims, or qualities that characterize or mark a profession or professional person.
- Without independence, the user will place little value on the auditor's report.

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THE AUDITOR AS A BUSINESS AND INDUSTRY EXPERT

- The auditor must have extensive knowledge about the nature of the client's business and industry in order to determine whether financial statements assertions are valid.
- Client business risk is the risk that an entity's business objectives will not be attained as a result of the external and internal factors, pressures, and forces brought to bear on the entity and, ultimately the risk associated with the entity's survival and profitability.

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THREE FUNDAMENTAL CONCEPTS IN CONDUCTING AN AUDIT

- Materiality
- Audit risk
- Evidence

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MATERIALITY

The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.



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AUDIT RISK

The risk that the auditor may unknowingly fail to appropriately modify the opinion on financial statements that are materially misstated.



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EVIDENCE

- Evidential matter supporting the financial statements consists of the underlying accounting data and all corroborating information available to the auditor.
- Relevance refers to whether the evidence relates to the specific audit objective being tested.
- Reliability refers to the diagnosticity of the evidence; does the evidence signal the true state of the assertion or audit objective.



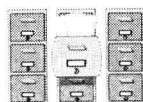
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SAMPLING: INFERENCES BASED ON LIMITED OBSERVATIONS

- Due to cost and time constraints, the auditor examines only a subset of the data (transactions) available in the client's records.
- As a result, the auditor uses his/her knowledge about the transactions and/or a sampling approach to examine the transactions.



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OVERVIEW OF THE AUDIT PROCESS MAJOR PHASES

- Client acceptance and retention
- Establish the terms of the engagement
- Plan the audit
- Consider internal control
- Conduct substantive tests
- Complete the audit
- Issue audit report

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AUDIT REPORTING

- The auditor's report is the main product or output of the audit.
- SAS No. 58, "Reports on Audited Financial Statements" provides authoritative guidance on audit reporting.

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THE AUDITOR'S STANDARD UNQUALIFIED AUDIT REPORT

- This is the most common type of audit report.
- The standard unqualified audit report contains seven important elements:
 - Report title
 - The addressee
 - Introductory paragraph
 - Scope paragraph
 - Opinion paragraph
 - The audit report date
 - Name of auditor

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DEPARTURES FROM AN UNQUALIFIED AUDIT REPORT

- Scope limitation
- A departure from GAAP
- The auditor is not independent

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OTHER TYPES OF AUDIT REPORTS

- Qualified
- Disclaimer
- Adverse

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