

PRINCIPLES OF AUDITING

MEIGS, WHITTINGTON, AND MEIGS

EIGHTH EDITION

Principles of Auditing

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1985 Eighth Edition

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Principles of Auditing

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Preface

What topics are appropriate for inclusion in the introductory auditing course? With the trend toward computer-assisted auditing, recent changes in the auditors' civil liability, and the virtual explosion of professional pronouncements, the "common body of knowledge" for auditors is expanding dramatically. In light of these changes, we have redesigned our textbook and its supporting supplements. We have added new features and new learning aids, condensed our coverage of topics that have declined in importance, reorganized portions of the text to improve instructional efficiency, and attempted to refine and polish our treatment of many topics.

Our goal is for students to understand the philosophy and environment of auditing. Thus, our first 11 chapters provide a sweeping overview of auditing, with special attention to the nature and economic purpose of audits, auditing standards, professional ethics, auditors' legal liability, the study and evaluation of internal control, and the nature of audit evidence. In addition to this conceptual approach, this edition, as did the preceding ones, presents auditing techniques in an organized and understandable manner. In our final chapter, we discuss professional services other than audits that may be undertaken by the auditing staff of a CPA firm. These services include compilations, reviews, reports on internal accounting control, and operational audits.

NEW FEATURES OF THIS EDITION

In response to the expanding content of the basic auditing course, this edition of our textbook contains more new learning and instructional aids

than any of its predecessors. Among the many new features of this edition are the following:

Research and Discussion Cases, provocative case-study situations often based upon actual auditing dilemmas. These cases are designed to acquaint students with the process of researching auditing problems and to illustrate the inescapable need for exercising personal professional judgment. These cases, which are labeled as “Group IV” problem material, are provided for a majority of our chapters.

An increased number of **illustrations, tables, and flow charts**. These graphic displays have been designed to visually summarize key points. Also increased in number are the **Illustrative Cases**, using actual business examples to illustrate important concepts.

A **Study Guide**, written by the textbook authors and designed to enable students to review textbook material and to test their understanding. The guide includes a summary of the highlights of each chapter and an abundance of objective questions and exercises. Answers to the questions and exercises are included at the back of the guide to provide students with immediate feedback.

An **Instructors’ Guide** with topical outlines of each chapter, the authors’ personal comments on each chapter, and numerous instructional aids, such as transparency masters and topics to supplement classroom discussions. Also included in the Instructors’ Guide is an extensive test bank, including many original questions and problems as well as questions adapted from various professional examinations. The test bank provides examination material organized on a chapter-by-chapter basis, and in the format of three one-hour examinations and a two-hour comprehensive final examination.

The chapter discussing the auditors’ reporting obligations has been moved from late in the textbook to the position of the second chapter. Our coverage of this all-important topic has been extensively revised to illustrate clearly the auditors’ alternatives and responsibilities.

The chapter on the audit of electronic data processing systems has been expanded to include control and audit considerations relating to advanced computer systems and to minicomputers. Throughout the textbook, we have increased the emphasis upon auditing in an EDP environment.

Our discussion of professional ethics has been revised to cover emerging controversial issues and to illustrate the need for judgment in evaluating situations that might impair independence.

A virtually new chapter on auditors’ liability covers recent court decisions and clearly explains the auditors’ responsibilities under the federal securities acts.

A carefully revised and easy-to-understand chapter on audit sampling includes a new discussion of the risks inherent in the sampling process. Emphasis is placed on basic concepts of importance to every auditor,

rather than on statistical considerations of interest primarily to statistical specialists.

An extensively revised last chapter distinguishes between the responsibilities of an auditor and those of a CPA performing accounting and review services. Emphasis is placed on the responsibility assumed by the CPA in issuing special reports, reports on internal accounting control, and reports on compilations and reviews.

Both text discussion and problem material have been updated to reflect the latest pronouncements of the Auditing Standards Board, the SEC, and the FASB. This material is integrated into text and problem material to assure coverage of all topical areas included in recent CPA examinations. In addition, both the text and problem material have been expanded to include coverage of topics that are simply too controversial to be taken up by the professional standard-setting committees.

**END-OF-CHAPTER
PROBLEM
MATERIAL**

The questions, problems, and case materials at the end of each chapter are divided as follows: Group I—Review Questions; Group II—Questions Requiring Analysis; Group III—Problems; and Group IV—Research and Discussion Cases.

The review questions are closely related to the material in the chapter and provide a convenient means of determining whether the student has grasped the major ideas and implications contained in that chapter.

The questions requiring analysis call for thoughtful appraisal of realistic auditing situations and the application of generally accepted auditing standards. Many of these Group II questions are taken from CPA examinations, others from actual audit engagements. These thought-provoking questions requiring analysis differ from the Group III problems in that they are generally shorter and tend to stress value judgments and conflicting opinions.

Many of the Group III problems have been drawn from CPA examinations; in the selection of these problems, consideration was given to all auditing problems which have appeared in CPA examinations in recent years. Other problems reflect actual audit situations from the experience of practicing accountants. Many of the problems are new, but problems appearing in the previous editions have been retained (usually with some modification) if they were superior to other available problems. In response to the recent shift in content of the auditing section of the CPA examination, problems requiring extensive working papers and quantitative applications have been minimized, and short case-type questions have been emphasized.

**RESEARCH AND
DISCUSSION
CASES**

One of the new pedagogical features of this eighth edition is the inclusion of 10 Research and Discussion Cases in the end-of-chapter problem material. These cases involve controversial situations that do not lend themselves to clear-cut answers. Students are asked to research the appropriate auditing and accounting literature and then to formulate and

justify their personal positions on the issue. The cases are designed to acquaint students with the professional literature, to develop research and communications skills, and to demonstrate that several diverse yet defensible positions may be argued persuasively in a given situation. Research and Discussion Cases appear as Group IV problem material at the ends of Chapters 2, 3, 4, 5, 6, 8, 10, 12, 14, and 19.

REFERENCES TO AUTHORITATIVE SOURCES

Numerous references are made to the pronouncements of the Auditing Standards Board, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, and the Securities and Exchange Commission. Special attention is given to the *Code of Professional Ethics*, and to *Statements on Auditing Standards*. The cooperation of the AICPA in permitting the use of its published materials and of questions from the Uniform CPA Examination brings to an auditing text an element of authority not otherwise available.

CONTRIBUTIONS BY OTHERS

We want to express our sincere thanks to the many users of the preceding editions who offered helpful suggestions for this edition. Especially helpful were the advice and suggestions of the following reviewers: H. David Brecht, California State University, Sacramento; Larry D. Gardner, Northern Arizona University; Wai P. Lam, University of Windsor; Earl Monical, University of Wisconsin; Robert A. Provost, Bryant College; Ronald O. Reed, University of Colorado; and Frank F. Weinberg, Golden Gate University.

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Contents

1. The role of the auditor in the American economy 2

What is an audit? Economic decision making requires dependable information. The attest function. Credibility—the contribution of the independent auditor to financial reporting. Major auditing developments of the 20th century. Types of audits. CPAs and other types of auditors. The CPA examination. CPA firms. American Institute of Certified Public Accountants. Financial Accounting Standards Board. Securities and Exchange Commission. Quality control. Division for CPA firms. Peer review. Generally accepted auditing standards (GAAS). Application of auditing standards. Training and proficiency. Independence—the most important auditing standard. Due professional care. Standards of field work—accumulating evidence. Adequate planning and supervision. Study and evaluation of internal control. Sufficient competent evidential matter. The reporting standards. Statements on Auditing Standards (SASs). The auditors' report. Importance of the auditors' report. Auditors' reports and clients' financial statements. The opinion paragraph of the auditors' report. The financial statements “present fairly . . .” Generally accepted accounting principles (GAAP). Other types of auditors' reports. The cost of an audit. Extensions of the auditors' attest function.

2. Auditors' reports 44

Financial statements. Financial statement disclosures. The auditors' standard report. Conditions permitting issuance of the stan-

dard unqualified report. “Qualifying language.” EXPRESSION OF AN OPINION. Materiality. Unqualified opinions. Qualified opinions. Two or more qualifications. Adverse opinions. Disclaimer of opinion. Summary of auditors’ reports. Different opinions on different statements. Comparative financial statements in audit reports. Reports to the SEC.

3. Professional ethics 80

The need for professional ethics. Professional ethics in public accounting. THE AICPA CODE OF PROFESSIONAL ETHICS. ANALYSIS OF AICPA CODE. Independence. General and technical standards. Responsibilities to clients. Responsibilities to colleagues. Other responsibilities and practices. The CPA as tax adviser—ethical problems. Enforcement of professional ethics. OTHER GUIDELINES FOR RENDERING PROFESSIONAL SERVICES. Standards for internal audits.

4. Legal liability of auditors 108

Unique vulnerability of accountants to lawsuits. Definition of terms. Litigation placed in perspective. AUDITORS’ LIABILITY TO THEIR CLIENTS. CPAs’ responsibilities for the detection of errors and irregularities. Lawsuits by clients. Third-party beneficiaries enjoy the same rights as clients. AUDITORS’ LIABILITY TO OTHER THIRD PARTIES. Liability to third parties under common law. Liability to third parties under statutory law. Securities Act of 1933. Securities Exchange Act of 1934. Comparison of the 1933 and 1934 Acts. Auditors’ civil liability: a summary. Auditors’ criminal liability under the Securities Acts. The SEC’s regulation of accountants. Accountants’ liability for accounting and review services. The CPAs’ posture in the age of litigation.

5. The public accounting profession: Planning the audit 140

Responsibilities of the professional staff. Professional development for CPA firm personnel. Continuing education—the CPA’s response to change. Seasonal fluctuations in public accounting work. Relationships with clients. PLANNING THE AUDIT. Accepting new audit clients. Obtaining a knowledge of the client’s business. Preliminary arrangements with clients. Engagement letters. Developing an overall audit strategy. Audit plans. Audit programs. Time budgets for audit engagements. The audit trail. Planning a recurring engagement. THE AUDIT PROCESS. Relationship between tests of compliance and substantive tests. Timing of audit work. Auditing terminology.

6. Internal control 172

The meaning of internal control. Internal accounting controls versus internal administrative controls. The need for internal control.

Foreign Corrupt Practices Act. MEANS OF ACHIEVING INTERNAL ACCOUNTING CONTROL. Plan of organization. The accounting structure. Internal auditing—its relationship to internal control. Limitations of internal control. Fidelity bonds. THE AUDITORS' REVIEW OF INTERNAL CONTROL. Reliance by the auditors upon internal control. Scope of the auditors' investigation of internal control. Review and description of internal control. Compliance tests of internal control procedures. Evaluation of internal control. Preparation of a management letter. Internal control in the small company.

7. Internal control over EDP activities 214

Nature of an electronic data processing system. INTERNAL CONTROL IN THE ELECTRONIC DATA PROCESSING SYSTEM. Organizational controls in an electronic data processing system. *Organizational controls and computer-centered fraud.* Documentation. Equipment controls. Security for files and equipment. Controls over input. Control over processing. Controls over output. Control responsibilities of the internal auditors. Control in minicomputer systems. Implications of advanced systems. Impact of EDP on the audit trail. THE AUDITORS' STUDY AND EVALUATION OF INTERNAL CONTROL IN AN EDP SYSTEM. Review of internal control. Tests of compliance. Evaluation of internal control. Computer service centers.

8. Evidence—what kind and how much? 252

Sufficient competent evidential matter. Types of audit evidence. The cost of obtaining evidence. Relative risk. Evidence provided by subsequent events. Audit procedures relating to subsequent events. The auditors' subsequent discovery of facts existing at the date of their report. Subsequent discovery of omitted audit procedures. Evidence for related party transactions.

9. Audit sampling 284

Nonsampling risk. Comparison of statistical and nonstatistical sampling. Random selection. Random number tables. Random number generators. Systematic selection. Stratification. Block samples. Sampling plans. Precision. Confidence level (reliability). Sample size. AUDIT SAMPLING FOR COMPLIANCE TESTS. Defining a "deviation." Sampling risk for compliance tests. Attributes sampling. Illustration of attributes sampling. Sequential attributes sampling. Discovery sampling. AUDIT SAMPLING FOR SUBSTANTIVE TESTS. Variables sampling. Mean-per-unit estimation. Theory of mean-per-unit estimation. Determination of sample size. Illustration of mean-per-unit estimation. Ratio and difference estimation. Illustration of ratio and difference estimation. Dollar-unit

(probability proportionate to size) sampling. Evaluating sampling risk. Acceptable levels of beta risk. Controlling beta risk.

- 10. Audit working papers: Quality control for CPA firms 326**
 What are audit working papers? Functions of working papers. Confidential nature of working papers. Ownership of audit working papers. Working papers and auditors' liability. Types of working papers. Organization of the working papers. Guidelines for preparation of working papers. Computer-generated working papers. The review of audit working papers. QUALITY CONTROL IN CPA FIRMS. Division for CPA firms. The Public Oversight Board. Peer reviews. Underreporting of time.
- 11. Designing audit programs; examination of the general records 356**
 The systems portion of the program. The substantive test portion of the program. Objectives of audit programs. General objectives of audit programs for asset accounts. Substantiation of account balances. Existence and ownership of assets. Establishing completeness. Valuation of assets. Establishing a proper cutoff. Related income statement amounts. Financial statement presentation. An illustration of program design. EXAMINATION OF THE GENERAL RECORDS. Articles of incorporation and bylaws. Partnership contract. Corporate minutes book. Contracts held or issued by client. Government regulations. Correspondence files. Income tax returns of prior years. Financial statements and annual reports of prior years. Reports to the SEC. Review and testing of the accounting records. The general ledger. The general journal. Audit working papers for the examination of accounting records.
- 12. Cash and marketable securities 390**
 The auditors' approach to cash. The auditors' objectives in examination of cash. How much audit time for cash? Internal control over cash transactions. Internal control over cash receipts. Internal control over cash disbursements. Internal control aspects of petty cash funds. Internal control and the computer. Audit working papers for cash. AUDIT PROGRAM FOR CASH. A. Study and evaluation. B. Substantive tests. Interim audit work on cash. MARKETABLE SECURITIES. The auditors' objectives in examination of marketable securities. Internal control for marketable securities. Internal control questionnaire. Audit program for securities. Audit procedures and working papers.
- 13. Accounts receivable, notes receivable, and sales transactions 438**
 The sales and collection cycle. Sources and nature of accounts receivable. Sources and nature of notes receivable. The auditors'

objectives in examination of receivables and sales. Internal control of sales transactions and accounts receivable. Internal control of notes receivable. Internal control and the computer. Audit working papers for receivables and sales. AUDIT PROGRAM FOR RECEIVABLES AND SALES TRANSACTIONS. A. Study and evaluation. B. Substantive tests. Interim audit work on receivables and sales.

14. Inventories and cost of goods sold 478

Critical importance of inventories to the auditors. The auditors' objectives in examination of inventories and cost of goods sold. Unaudited replacement cost information. Internal control of inventories and cost of goods sold. Audit working papers for inventories and cost of goods sold. AUDIT PROGRAM FOR INVENTORIES AND COST OF GOODS SOLD. A. Study and evaluation. B. Substantive tests.

15. Property, plant, and equipment: Depreciation and depletion 522

The auditors' approach. The auditors' objectives in examination of property, plant, and equipment. Contrast with audit of current assets. Unaudited replacement cost information. Internal controls over plant and equipment. The plant and equipment budget. Other major control devices. Audit working papers. Initial audits and repeat engagements. AUDIT PROGRAM FOR PROPERTY, PLANT, AND EQUIPMENT. A. Study and evaluation. B. Substantive tests. DEPRECIATION. The auditors' perspective toward depreciation. Accelerated Cost Recovery System (ACRS). The auditors' objectives in auditing depreciation. Audit program—depreciation expense and accumulated depreciation. Testing the client's provision for depreciation. Verification of natural resources. Verification of intangible assets. Examination of plant and equipment in advance of the balance sheet date.

16. Accounts payable and other liabilities 554

Meaning of accounts payable. The auditors' objectives in examination of accounts payable. Internal control over accounts payable. Audit working papers for accounts payable. AUDIT PROGRAM. A. Study and evaluation. B. Substantive tests. OTHER LIABILITIES. Amounts withheld from employees' pay. Sales taxes payable. Unclaimed wages. Customers' deposits. Accrued liabilities. Balance sheet presentation. Time of examination.

17. Debt and equity capital; loss contingencies 586

INTEREST-BEARING DEBT. The auditors' objectives in examination of interest-bearing debt. Internal control over interest-bearing

ing debt. Audit working papers. AUDIT PROGRAM FOR INTEREST-BEARING DEBT. Time of examination—interest-bearing debt. EQUITY CAPITAL. The auditors' objectives in examination of owners' equity. Internal control for owners' equity. Control of capital stock transactions by board of directors. Independent registrar and stock transfer agent. The stock certificate book. The stockholders ledger. Internal control over dividends. Audit working papers for owners' equity. AUDIT PROGRAM-CAPITAL STOCK. RETAINED EARNINGS AND DIVIDENDS. Time of examination—stockholders' equity. Financial statement presentation of stockholders' equity. AUDIT OF SOLE PROPRIETORSHIPS AND PARTNERSHIPS. DISCLOSURE OF CONTINGENCIES. Commitments. General risk contingencies. Audit procedures for loss contingencies. Liability representations. Financial presentation of loss contingencies.

18. Further verification of revenue and expenses; completing the audit 624

Conservatism in the measurement of income. The auditors' approach to verification of income. Audit by analytical review. REVENUE. Audit objectives. Relationship of revenue to balance sheet accounts. Miscellaneous revenue. EXPENSES. Audit objectives. Relationship of expenses to balance sheet accounts. The budget—a vital element in controlling costs and expenses. Payrolls. Internal control. Methods of achieving internal control. The employment function. Timekeeping. Payroll records and payroll preparation. Distributing paychecks or cash to employees. Description of internal control for payroll. AUDIT PROGRAM FOR PAYROLLS. AUDIT PROGRAM FOR SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES. INCOME STATEMENT PRESENTATION. How much detail in the income statement? Reporting earnings per share. Reporting by diversified companies. Examination of the statement of changes in financial position. COMPLETING THE AUDIT. Audit procedures. Evaluating audit findings. Responsibilities for other information in the financial report.

19. Special audit engagements; accounting and review services 658

SPECIAL AUDIT ENGAGEMENTS. Special reports. Basis other than generally accepted accounting principles (GAAP). Specified elements, accounts, or items of financial statements. Compliance reports. Financial information presented in prescribed forms or schedules. Audits of personal financial statements. ACCOUNTING AND REVIEW SERVICES. Unaudited financial statements. Reports on audited interim statements of public companies. Other "association" with the financial statements of public companies. Ac-

counting and review services for nonpublic companies. Compilation services for nonpublic companies. Review services for nonpublic clients. Accountants' reports on comparative statements. Letters for underwriters. Reviews of financial forecasts. Reports on internal accounting control. Operational audits.

Index 693

Principles of Auditing