

SEVENTH EDITION

AUDITING

*An Assertions
Approach*



DONALD H. TAYLOR

G. WILLIAM GLEZEN

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Auditing: An Assertions Approach

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Many of the concepts, examples, and illustrations in this book are the result of Professor Glezen's 17 years of experience in public accounting with Arthur Andersen LLP. During this period, which included seven years as a partner, he participated at all levels in, and supervised, audit engagements of both large and small enterprises in a broad range of industries.

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Many users of our book have been very helpful in making suggestions to improve the seventh edition. We especially appreciate the comments of Professors Margaret A. Berezewski (Robert Morris College), Gary D. Burkette (East Tennessee State University), William J. Donnelly (San Jose State University), Michele Huff (Golden Gate University), Joseph D. Kaderabek (Baldwin-Wallace College), Hossein Nouri (Trenton State College), and Robert L. Terrell (University of Central Oklahoma).

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D.H.T.

G.W.G.

Preface

The seventh edition of this book maintains the four traditional strengths of the earlier editions: (1) readability; (2) a balanced approach between concepts and procedures; (3) comprehensive end-of-chapter material; and (4) versatility. We have also updated the book for current auditing standards and appropriate real world examples.

Several features have been added that make this edition more readable and create interesting ways to teach auditing. Many chapters contain examples of value-added auditing that show how auditors can improve the efficiency and effectiveness of their clients' operations. Several cases have been placed in the instructor's manual to shorten the text and still give instructors an opportunity to cover them. The last cases in Chapters 1 through 5 have a continuous theme, allowing the instructor to tie together important concepts in the early part of the course. We have added new and challenging discussion questions from the essay section of recent CPA examinations. We have condensed the book by focusing more sharply on important concepts and eliminating duplicate explanations.

Here is a chapter-by-chapter explanation of the material:

Chapter 1 is an overview of auditing and distinguishes between financial statement, operational, and compliance auditing.

Chapter 2 describes services offered by CPA firms and standards used to perform a financial statement audit. The chapter compares in detail the broad attestation standards and the more narrowly focused auditing standards.

Chapter 3 includes discussions of ethics and the AICPA *Code of Professional Conduct*, including new interpretations and rulings. This chapter can be covered at the end of the course, although we prefer to cover it at this early point.

Chapter 4 covers the auditor's legal environment and landmark cases that have changed this environment. Several new cases are integrated into the appropriate sections. This chapter can also be covered at the end of the course, although we again prefer to cover it earlier.

Chapter 5 covers errors and fraud in a very focused way. Our users have given us positive feedback on this separate chapter started in the previous edition.

Chapter 6 is the first chapter on audit planning and documentation. We have a detailed introduction to management assertions that are highlighted in the remainder of the book.

Chapter 7 introduces materiality and audit risk and contains extensive illustrations of the audit risk model.

Chapter 8 is the third chapter on planning and describes in detail the audit planning process.

Chapters 9 through 12 cover internal control. Chapter 9 introduces two audit strategies for obtaining an understanding of internal control and for testing and evaluating it. We use the new COSO model for describing internal control. Chapter 10 illustrates tests of controls, including the use of nonstatistical and statistical sampling. The sections on sampling can either be covered in depth or omitted. Chapters 11 and 12 cover internal control and substantive tests in a computerized environment. These two chapters can be assigned as a unit.

Chapters 13 through 18 cover substantive testing. Chapter 13 discusses the general nature of evidence gathering and demonstrates how assertions are used to derive audit objectives, which are then used to derive audit procedures. Chapter 14 (which may be omitted by instructors) illustrates nonstatistical and statistical sampling techniques applicable to substantive tests. Chapters 15 through 18 contain extensive discussions of audit procedures for substantive tests, many of which are illustrated with microcomputer-generated working papers. Instructors may wish to condense coverage of these chapters. Some coverage is very desirable because the chapters contain practical material on audit techniques.

Chapters 19 through 21 cover the various audit reporting standards. Instructors may prefer to teach Chapter 19 in summary form because of prior coverage of the standard audit report. Chapter 20 should be studied in depth to acquire knowledge of the various forms of qualifications, disclaimers, and adverse opinions. Chapter 21 contains useful illustrations of review, compilation, and other services that CPAs provide.

Chapter 22 covers operational and compliance auditing. This material can be covered earlier at the instructor's preference.

We have the same type of end-of-chapter material that has been a major strength of our book in the previous six editions. Several cases have been added, some have been modified, and others have been placed either in the test bank or instructor's manual. We now have our best balance of questions and cases.

Review questions can be used to learn the chapter material in the sequence in which the material is written. Objective questions (some written by us and some adapted from CPA, CMA, and CIA examinations) relate chapter material to subject matter covered on professional examinations. Discussion/case questions emphasize the highly subjective nature of auditing. We suggest use of all types of questions; each type has a distinct purpose.

This edition is designed to be used for a one-semester coverage of an undergraduate or graduate auditing course. The book does have the versatility to be used in a number of ways:

1. All 22 chapters can be covered if the instructor prefers to teach a broad overview of auditing.
2. All 22 chapters can be briefly covered in a first course. Other chapters can then be covered in depth in a second course.
3. Chapters 1 through 9, 13, and 19–21 can be covered in a first course. Then, Chapters 10 through 12, 14 through 18, and 22 can be covered in a second course. This option is appropriate if the first course is conceptual and the second course is procedural.

Several supplements are available to assist the instructor and student. The instructor's manual contains (a) guides for covering the chapters; (b) a list of illustrations in the text; (c) answers to all of the end-of-chapter materials; (d) a set of transparency masters; and (e) discussion/case questions and answers we extracted from earlier editions of the text. The Computerized Test Bank contains many types of test questions for each chapter, including discussion/case questions extracted from earlier editions of the text. The Study Guide includes chapter-by-chapter highlights and a large variety of questions.

We hope you enjoy this edition of the book.

Donald H. Taylor

G. William Glezen

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