



O. Ray Whittington & Kurt Pany

Thirteenth Edition

Principles of *Auditing*  
and Other Assurance Services

# PRINCIPLES OF AUDITING AND OTHER ASSURANCE SERVICES

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THIRTEENTH EDITION

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# Preface

The thirteenth edition of *Principles of Auditing and Other Assurance Services* provides a carefully balanced presentation of auditing and assurance theory and practice. Written in a clear and understandable manner, it is appropriate for students who have not had significant audit experience. The approach is to integrate auditing and assurance material with that of previous courses in accounting systems and financial and managerial accounting. Our primary goal is to provide a textbook well suited for the introductory one-semester or one-quarter auditing and assurance course. Alternatively, the instructor may choose to cover certain portions of the text in greater detail in the first course and save other portions for a second course. For example, an introductory course might emphasize Chapters 1 through 9, 16, and 17. A second course could include coverage of the procedural chapters, the other reports and services included in Chapters 18 and 19 (e.g., special reports, accounting and review services, other assurance services), and internal, operational, and compliance auditing in Chapter 20. The instructor might also wish to consider covering portions of Chapter 9 on sampling in the second course.

The first nine chapters emphasize the philosophy and environment of the public accounting profession, with special attention paid to the nature and economic purpose of audit and assurance services, professional standards, professional conduct, legal liability, audit evidence, audit planning, consideration of internal control, audit sampling, and audit working papers. Chapters 10 through 16 (the “procedural chapters”) deal with internal control and obtaining evidence about the various financial statement accounts; they emphasize a risk-based approach to selecting appropriate auditing procedures. Chapters 17 and 18 present the auditors’ reporting responsibilities related to historical financial information—audit reports, special reports, and reports on accounting and review services. Chapter 19, new to this edition, presents other assurance services, including a variety of attestation and other assurance services. The material in this chapter on attestation services has been updated for changes currently being adopted by the public accounting profession. Chapter 20 presents coverage of internal, compliance, and operational auditing.

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## FEATURES OF THIS EDITION

This text includes a variety of features to enhance the learning experience:

**Chapter Objectives** provide a concise presentation of each chapter's most important concepts.



**Keystone Computers & Networks, Inc.**, is the text's **Illustrative Audit Case**. This feature 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), considering internal control and testing account balances (Chapters 11 and 14), and 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.

**Other assurance services** are included in a new chapter (Chapter 19) at both a conceptual and practical level. At a conceptual level the text provides a discussion of the nature of assurance services and a comparison of assurance services, attestation services, and audits. At the practical level it includes detailed discussions of the public accounting profession's new types of engagements, including *WebTrust*, *SysTrust*, and *ElderCare*.

**Internet assignments** are included among the end-of-chapter problem material for Chapters 6 and 11, 12, 16, and 17. These assignments require students to use the *Internet* to do audit research and are identified with a WWW logo in the margin.



A **Web site**, [www.mhhe.com/business/accounting/whittington](http://www.mhhe.com/business/accounting/whittington) provides links to various sites referred to in the text and updates that reflect changes in auditing standards that have occurred subsequent to publication of the text. The site also includes a multiple choice quiz and solution for each chapter to allow students to measure their mastery of key concepts. In addition, the site includes a quarterly commentary on matters addressed by the Auditing Standards Board of The American Institute of Public Accountants, written by Ray Whittington, the academic member of the board.

**Illustrative Cases** use actual business and accounting examples to illustrate key chapter concepts. The cases are boxed and appear throughout the text.

**Industry Focus Cases** use examples from specific industries to provide students with detailed "real-world" illustration of points being emphasized in the text. These cases show the importance of having a thorough knowledge of the audit client's business. Like the illustrative cases, these cases are boxed and appear throughout the text.

**Illustrative Documents**, included in the various procedural chapters (10 through 16), provide concise, realistic examples of the documents associated with the various transaction cycles.

**International Auditing Standards** are discussed as appropriate. These standards are becoming increasingly significant with the development of international markets for securities.

**Key Terms Introduced or Emphasized** is a glossary of each chapter's most important terms. The terms are boldface within the chapter and are defined at the end of the chapter. Placing the definitions at the end of each chapter allows the student to quickly find the meaning of unfamiliar terms while reading the material. The glossary also serves as an excellent review tool and helps the student see how well he or she understands the major ideas presented.

**Illustrations, Tables, and Flowcharts** are used throughout to enhance and clarify the presentation. **Chapter Summaries** recap the most important information presented in the chapter.

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## END-OF-CHAPTER PROBLEM MATERIAL

The questions, problems, case material, and audit case exercises at the end of each chapter are divided as follows: Review Questions, Questions Requiring Analysis, Problems, Research and Discussion Cases, In-Class Team Exercises, and Audit Case Exercises.

The **Review Questions** are closely related to the material in the chapter and provide a convenient means of determining whether students have grasped the major concepts and details contained in that chapter.

The **Questions Requiring Analysis** require thoughtful consideration of a realistic auditing situation and the application of professional standards. A number of these questions are taken from CPA and CIA examinations, and others describe actual practice situations. These questions, which are generally shorter than the problems, tend to stress value judgments and conflicting opinions.

Many of the **Problems** are drawn from CPA and CIA examinations. In selecting these problems, consideration was given to ones appearing in recent professional exams. However, older questions are included when they are superior to others available.

### In-Class Team Cases



These cases, new to this edition, are meant to be solved in class either by teams of students, or if the instructor prefers, by individuals. They help provide the student with an active learning environment to apply key concepts included in each chapter.

### Research and Discussion Cases



These cases involve controversial situations that do not lend themselves to clear-cut answers. Students are required to research appropriate professional literature and to then apply critical thinking skills to logically formulate and justify their personal positions on the issues involved in each case. The cases acquaint students with the professional literature, develop research and communication skills, and demonstrate that several diverse, yet defensible, positions may be argued persuasively in a given situation.

### Audit Case Exercises



These exercises all pertain to the text's continuing integrated case, **Keystone Computers & Networks, Inc.** While each exercise may "stand alone," when used in combination, these case exercises take the student from the original planning of an audit through testing of controls, substantive testing, and accumulation and analysis of uncorrected misstatements. Exercises are included in Chapters 6, 11, 14, and 16. A **Computer Disk of Spreadsheet Templates** is available to be used in conjunction with selected audit case exercises. The exercises with templates are identified by a floppy disk logo in the margin.

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## REFERENCES TO AUTHORITATIVE SOURCES

Numerous references are made to the pronouncements of the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), and the Securities and Exchange Commission (SEC). Special attention is given to the *Code of Professional Conduct*, *Statements on Standards for Accounting and Review Services*, *Statements on Standards for Attestation Engagements*, *Statements on Auditing Standards*, and guidelines developed for other types of assurance services. The cooperation of the AICPA and the IIA in permitting the use of their published materials and of questions from the CPA and CIA examinations brings to the text an element of authority not otherwise available.

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## SUPPLEMENTS

A **Study Guide**, written by the text's authors, enables students to review text material and to test their understanding. The guide includes a summary of each chapter's highlights and an abundance of objective questions and exercises. Since the guide includes answers to the questions and exercises, it provides immediate feedback to students.

Our **Instructor's Lecture Guide** includes topical outlines of each chapter, the authors' personal comments on each chapter, and numerous instructional aids, including transparency masters. A **Solutions Manual** includes thorough and up-to-date solutions to the text's questions, problems, and exercises.

The **Test Bank** includes both original questions and problems and questions adapted from various professional examinations. It has been expanded in this edition by the inclusion of additional multiple choice and essay-type questions.

**Diploma Testing Software** from Brownstone Research Group is the computerized version of the test bank. The advanced-feature exam generator allows instructors to add and edit questions; save and reload multiple tests; insert instructions to students; and select questions based on type, level of difficulty, or objective. Diploma also provides an On-Line Testing Program, Internet Testing, and a versatile Grade Book. It is available on 3.5 disks.

**PowerPoint presentations** are available to assist in classroom presentations.

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## CONTRIBUTIONS BY OTHERS

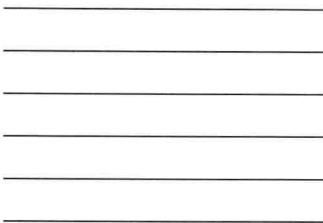
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# 1



## THE ROLE OF THE PUBLIC ACCOUNTANT IN THE AMERICAN ECONOMY

### CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

- ◆ Describe assurance services.
- ◆ Identify assurance services that involve attestation.
- ◆ Describe the nature of financial statement audits.
- ◆ Explain why audits are demanded by society.
- ◆ Contrast the various types of audits and types of auditors.
- ◆ Describe how CPA firms are typically organized and the responsibilities of auditors at the various levels in the organization.
- ◆ Discuss the effects that the major professional and regulatory organizations have had on the accounting profession.

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